

GAP MINISTRIES, INC.
Tucson, Arizona

CONSOLIDATED
FINANCIAL STATEMENTS
Years Ended June 30, 2025 and 2024

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. and affiliates
Tucson, Arizona

Opinion

I have audited the accompanying consolidated financial statements of GAP Ministries, Inc., (a nonprofit organization) and affiliates (the Organization), which are comprised of the consolidated statements of financial position as of June 30, 2025 and 2024 and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the GAP Ministries, Inc. and affiliates as of June 30, 2025 and 2024, and the changes in their net assets and their 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 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 the Organization's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

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 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 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 consolidated 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 29, 2025

GAP MINISTRIES, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2025 and 2024

	<u>2025</u>	<u>2024</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 314,107	\$ 393,856
Accounts receivable, net	491,571	434,668
Promises to give, net	60,230	73,395
Inventory	63,115	66,814
Other current assets	62,658	45,164
Total current assets	991,681	1,018,097
Operating lease right-of-use assets	318,515	42,187
Property and equipment, net	9,225,756	8,607,699
TOTAL ASSETS	\$ 10,535,952	\$ 9,667,983
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 180,570	\$ 189,180
Accrued expenses	139,243	120,446
Current portion of long-term debt	152,563	208,035
Current portion of lease liabilities	68,828	36,046
Other current liabilities	39,214	238,062
Total current liabilities	580,418	795,969
LONG-TERM LIABILITIES		
Lease liabilities, net of current portion	264,314	6,141
Long-term debt, net of current portion	5,524,794	4,800,721
TOTAL LIABILITIES	6,369,526	5,602,831
NET ASSETS		
Without donor restrictions:		
Undesignated	601,012	125,578
Invested in property and equipment, net of related debt	3,548,399	3,598,943
Total without donor restrictions	4,149,411	3,724,521
With donor restrictions	17,015	340,631
TOTAL NET ASSETS	4,166,426	4,065,152
TOTAL LIABILITIES AND NET ASSETS	\$ 10,535,952	\$ 9,667,983

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, 2025

	Without donor restrictions	With donor restrictions	Total
REVENUES AND SUPPORT			
Contract revenue	\$ 4,264,190	\$ -	\$ 4,264,190
In-kind contributions	8,732,013	-	8,732,013
Contributions	1,473,292	53,166	1,526,458
Grants	26,971	277,661	304,632
Campus of Hope	-	4,935	4,935
Ecommerce sales	23,408	-	23,408
Thrift store sales	613,047	-	613,047
Food program	340,023	-	340,023
05 Market	120,393	-	120,393
Gains on insurance claims	148,126	-	148,126
Other income	65,951	-	65,951
Net assets released from restrictions	659,378	(659,378)	-
	<u>16,466,792</u>	<u>(323,616)</u>	<u>16,143,176</u>
EXPENSES			
Program services:			
Splash	3,539,996	-	3,539,996
Community Warehouse	6,899,340	-	6,899,340
Kitchen	1,901,049	-	1,901,049
Visitation and foster care	822,465	-	822,465
Miracle Center	952,731	-	952,731
05 Market	66,523	-	66,523
	<u>14,182,104</u>	<u>-</u>	<u>14,182,104</u>
Supporting services:			
General and administrative	1,448,363	-	1,448,363
Fundraising and development	411,435	-	411,435
	<u>1,859,798</u>	<u>-</u>	<u>1,859,798</u>
	<u>16,041,902</u>	<u>-</u>	<u>16,041,902</u>
CHANGE IN NET ASSETS	424,890	(323,616)	101,274
NET ASSETS, beginning	<u>3,724,521</u>	<u>340,631</u>	<u>4,065,152</u>
NET ASSETS, end	<u>\$ 4,149,411</u>	<u>\$ 17,015</u>	<u>\$ 4,166,426</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

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
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
Ecommerce sales	-	-	-
Thrift store sales	577,529	-	577,529
Food program	202,835	-	202,835
05 Market	-	-	-
Gains on sale of assets	366,472	-	366,472
Other income	93,297	-	93,297
Net assets released from restrictions	175,086	(175,086)	-
	<u>13,064,973</u>	<u>238,530</u>	<u>13,303,503</u>
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	763,814	-	763,814
05 Market	-	-	-
	<u>11,489,603</u>	<u>-</u>	<u>11,489,603</u>
Supporting services:			
General and administrative	1,113,651	-	1,113,651
Fundraising and development	462,391	-	462,391
	<u>1,576,042</u>	<u>-</u>	<u>1,576,042</u>
	<u>13,065,645</u>	<u>-</u>	<u>13,065,645</u>
CHANGE IN NET ASSETS	(672)	238,530	237,858
NET ASSETS, beginning	<u>3,725,193</u>	<u>102,101</u>	<u>3,827,294</u>
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 STATEMENTS OF CASH FLOWS
Years Ended June 30, 2025 and 2024

	<u>2025</u>	<u>2024</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 101,274	\$ 237,858
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	315,329	274,579
Bad debt (recoveries)	29,545	15,333
Gain on sale of assets	(400)	(366,472)
In-kind donation of assets	(4,262)	(44,188)
Changes in operating assets and liabilities:		
Accounts receivable	(56,903)	(7,506)
Promises to give	13,165	19,597
Inventory	3,699	(29,814)
Other current assets	(17,494)	38,017
Operating lease right-of-use assets	(276,328)	73,496
Accounts payable	(8,610)	(79,364)
Accrued expenses	18,797	(4,284)
Operating lease liabilities	290,955	(73,496)
Other current liabilities	(198,848)	19,519
Net adjustments	<u>108,645</u>	<u>(164,583)</u>
Net cash provided by operating activities	<u>209,919</u>	<u>73,275</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of fixed assets	(958,670)	(227,714)
Proceeds from disposal of assets	400	529,798
Net cash (used) provided by investing activities	<u>(958,270)</u>	<u>302,084</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on long-term debt	(1,427,529)	(323,777)
Borrowings on long-term debt	2,096,131	45,161
Net cash provided (used) by financing activities	<u>668,602</u>	<u>(278,616)</u>
Net (decrease) increase in cash and cash equivalents	(79,749)	96,743
CASH AND CASH EQUIVALENTS, beginning	<u>393,856</u>	<u>297,113</u>
CASH AND CASH EQUIVALENTS, ending	<u>\$ 314,107</u>	<u>\$ 393,856</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 FUNCTIONAL EXPENSES
Year Ended June 30, 2025

	Program Services						Supporting Services		Total expenses	
	Community	Visitation and	Miracle	Total program	General and	Fundraising and	Total expenses			
	Warehouse	foster care	Center	services	administrative	development				
Salaries	\$ 1,596,596	\$ 138,626	\$ 201,220	\$ 508,368	\$ 521,943	\$ 4,318	\$ 2,971,071	\$ 637,125	\$ 133,435	\$ 3,741,631
Payroll taxes and employee benefits	253,787	12,424	32,950	84,981	87,409	-	471,551	73,052	25,333	569,936
	1,850,383	151,050	234,170	593,349	609,352	4,318	3,442,622	710,177	158,768	4,311,567
Advertising	68	-	-	-	3,068	285	3,421	35,008	126,059	164,488
Bad debt (recoveries)	10,339	-	770	22,219	1,217	-	34,545	(5,000)	-	29,545
Bank fees	-	333	-	-	19,700	3,804	23,837	1,602	32,085	57,524
Books and education	13,537	-	-	-	-	-	13,537	79	-	13,616
Children allowances	7,528	-	-	-	-	-	7,528	-	-	7,528
Childcare and tuition	358	-	-	4,230	-	-	4,588	-	-	4,588
Clothes	8,695	-	-	-	-	-	8,695	-	-	8,695
Cost of goods sold	-	12,448	-	-	14,699	56,295	83,442	-	-	83,442
Depreciation	95,661	17,090	40,027	33,641	4,105	-	190,524	124,805	-	315,329
Dues and memberships	5,610	-	489	650	445	-	7,194	5,201	825	13,220
Employee screenings	13,791	-	1,402	889	2,063	-	18,145	1,052	85	19,282
Food	680,934	4,986,716	1,171,621	279	508	-	6,840,058	85	202	6,840,345
Freight	-	4,775	-	-	7,640	955	13,370	-	-	13,370
Insurance	55,441	44,283	34,178	28,284	26,552	-	188,738	128,002	-	316,740
Interest	119,796	-	8,961	23,835	8,517	-	161,109	143,773	-	304,882
License and permits	-	997	1,167	-	20	-	2,184	265	-	2,449
Miscellaneous	6,928	3,839	1,811	3,230	6,829	560	23,197	16,617	3,172	42,986
Participant reimbursements	-	-	-	-	21,317	-	21,317	-	-	21,317
Professional services	424	-	-	1,766	7,079	-	9,269	100,377	45,390	155,036
Recreation services	9,745	-	-	42	-	-	9,787	-	-	9,787
Rent	126,097	-	900	919	65,906	-	193,822	-	-	193,822
Repairs and maintenance	64,034	8,130	12,886	874	10,608	-	96,532	24,060	-	120,592
Supplies and materials	251,134	1,554,184	360,497	25,755	60,978	306	2,252,854	75,575	43,893	2,372,322
Training	-	-	476	-	2,987	-	3,463	299	-	3,762
Travel	8,836	2,131	-	75	1,239	-	12,281	5,371	293	17,945
Utilities	118,836	28,226	24,430	23,417	50,244	-	245,153	80,197	663	326,013
Vehicle	91,821	85,138	7,264	59,011	27,658	-	270,892	818	-	271,710
Total expenses	\$ 3,539,996	\$ 6,899,340	\$ 1,901,049	\$ 822,465	\$ 952,731	\$ 66,523	\$ 14,182,104	\$ 1,448,363	\$ 411,435	\$ 16,041,902

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
Year Ended June 30, 2024

	Program Services					Supporting Services			Total expenses
	Splash	Community warehouse	Kitchen	Visitation and foster care	Miracle Center	Total program services	General and administrative	Fundraising and development	
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
	<u>1,331,404</u>	<u>99,790</u>	<u>237,726</u>	<u>746,971</u>	<u>472,759</u>	<u>2,888,650</u>	<u>675,687</u>	<u>236,167</u>	<u>3,800,504</u>
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	<u>\$ 5,399,404</u>	<u>\$ 2,630,320</u>	<u>\$ 1,762,686</u>	<u>\$ 933,379</u>	<u>\$ 763,814</u>	<u>\$ 11,489,603</u>	<u>\$ 1,113,651</u>	<u>\$ 462,391</u>	<u>\$ 13,065,645</u>

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

GAP MINISTRIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2025 and 2024

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, GCS receives donated goods for distribution in the community from Good360, a national not-for-profit agency that redistributes donated goods it receives. GCS must maintain certain requirements to remain a Good360 approved distributor. The community warehouse also receives a substantial amount of goods from Walmart. During December 2024, the Community Warehouse began a new “05 Market” program which gives out free food and resells purchased food at a greatly reduced price to the general public.

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.

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

GAP MINISTRIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2025 and 2024

ADVERTISING

Advertising costs are expensed as incurred. Total advertising expense was \$164,884 and \$132,785 for the years ended June 30, 2025 and 2024, respectively.

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.

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

GAP MINISTRIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2025 and 2024

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.

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 \$315,328 and \$274,579 for the years ended June 30, 2025 and 2024, respectively.

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.

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

GAP MINISTRIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2025 and 2024

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.

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, 2025 and 2024.

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.

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

GAP MINISTRIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2025 and 2024

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, 2025 and 2024, the Organization recognized no such interest or penalties.

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.

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

GAP MINISTRIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2025 and 2024

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable at June 30 consist of the following:

	<u>2025</u>	<u>2024</u>
Accounts receivable (all current)	\$ 516,571	\$ 464,668
Less: allowance for doubtful accounts	<u>(25,000)</u>	<u>(30,000)</u>
	<u>\$ 491,571</u>	<u>\$ 434,668</u>

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>2025</u>	<u>2024</u>
Cash and cash equivalents	\$ 314,107	\$ 393,859
Accounts receivable	491,571	434,668
Promises to give, net	<u>60,230</u>	<u>73,395</u>
Total financial assets	865,908	901,919
Less: donor restricted net assets	<u>(17,015)</u>	<u>(340,631)</u>
Financial assets to meet cash needs for general expenditures within one year	<u>\$ 848,893</u>	<u>\$ 561,288</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>2025</u>	<u>2024</u>
2021 fundraising campaign	\$ 60,230	\$ 73,395
Allowance for uncollectable promises to give	-	-
Present value discount	-	-
Total promises to give, net	<u>\$ 60,230</u>	<u>\$ 73,395</u>
Amounts due in:		
Less than one year	<u>\$ 60,230</u>	<u>\$ 68,395</u>
One to five years	<u>\$ -</u>	<u>\$ 5,000</u>

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

GAP MINISTRIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2025 and 2024

NOTE 6 – PROPERTY AND EQUIPMENT

Property and equipment at June 30 consist of the following:

	<u>2025</u>	<u>2024</u>
Land	\$ 1,476,948	\$ 1,476,948
Buildings and improvements	8,224,007	7,465,860
Furniture and equipment	738,319	683,230
Leasehold improvements	437,102	385,677
Vehicles	<u>629,959</u>	<u>575,121</u>
	11,506,335	10,586,836
Less: accumulated depreciation	<u>(2,280,579)</u>	<u>(1,979,137)</u>
	<u>\$ 9,225,756</u>	<u>\$ 8,607,699</u>

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% at June 30, 2024). The Agreement contains both financial and nonfinancial covenants. Borrowings are collateralized by substantially all the assets of the Organization. There was \$0 and \$190,000 at June 30, 2025 and 2024, respectively, borrowed against the line of credit.

NOTE 8 – OTHER CURRENT LIABILITIES

Other current liabilities at June 30 consist of the following:

	<u>2025</u>	<u>2024</u>
Line of credit	\$ -	\$ 190,000
Contract liabilities	36,895	49,943
Deposits payable	250	250
Other liabilities	<u>2,069</u>	<u>2,069</u>
	<u>\$ 39,214</u>	<u>\$ 242,262</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 \$39,296 and \$37,934 for the years ended June 30, 2025 and 2024, respectively.

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

GAP MINISTRIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2025 and 2024

NOTE 10 – LONG-TERM DEBT

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

	2025	2024
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.	\$ 3,001,964	\$ 3,090,549
Note payable, Pacific Premier, payable in monthly installments of \$9,758 including interest of 6.75%, through December 2034. The note is subject to a prepayment penalty and collateralized by real property.	1,388,804	-
Note payable, Washington Federal, payable in monthly installments of \$4,226 including interest at 6.75% through February 2032. Collateralized by real property.	594,363	-
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.	416,362	428,569
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, Select Funding, LLC, payable in monthly installments of \$1,290 including interest at 16.43%, through November 2027, collateralized by equipment.	29,833	39,525
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
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

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

GAP MINISTRIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2025 and 2024

	2025	2024
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
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
	<u>5,677,357</u>	<u>5,008,755</u>
Less current portion	<u>152,563</u>	<u>208,035</u>
	<u>\$ 5,524,794</u>	<u>\$ 4,800,720</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, 2025 and 2024.

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

Year ending June 30,	
2026	\$ 152,563
2027	257,219
2028	158,032
2029	290,388
2030	384,843
Thereafter	<u>4,434,312</u>
	<u>\$ 5,677,357</u>

NOTE 11 – RETIREMENT PLAN

The Organization has a 403(b) employee benefit plan (Plan) covering all employees. During fiscal year 2023, the plan was effectively frozen and is currently being dissolved and replaced by 401(k) plan starting in fiscal year 2024. 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, 2025 and 2024.

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

GAP MINISTRIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2025 and 2024

NOTE 12 – NET ASSESTS WITH DONOR RESTRICTIONS

Net assets subject to expenditure for specified purpose for year ended June 30, 2025:

	<u>July 1, 2024</u>	<u>Contributions</u>	<u>Releases</u>	<u>June 30, 2025</u>
Program restriction:				
Warehouse shelving	\$ 11,700	\$ -	\$ (10,685)	\$ 1,015
Food program equipment	18,233	-	(18,233)	-
Corporate signage	9,000	-	-	9,000
Kitchen renovation	244,125	196,558	(440,683)	-
Splash improvements	-	18,000	(16,000)	2,000
Warehouse outreach	-	3,500	(3,500)	-
Water well	5,256	-	(5,256)	-
Warehouse improvements	1,000	-	(1,000)	-
MC career program	9,029	-	(9,029)	-
Bikes	7,084	-	(7,084)	-
Kitchen van refrigeration	5,000	-	(5,000)	-
Clothing pantry	2,704	5,000	(2,704)	5,000
Warehouse reach-in freezer	2,500	-	(2,500)	-
Other programs	<u>25,000</u>		<u>(25,000)</u>	-
	<u>\$ 340,631</u>	<u>\$ 223,058</u>	<u>\$ 546,674</u>	<u>\$ 17,015</u>

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>\$ 102,101</u>	<u>\$ 413,616</u>	<u>\$ 175,086</u>	<u>\$ 340,631</u>

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

GAP MINISTRIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2025 and 2024

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, 2025 and 2024:

	Revenue recognized	Allocated contract receivables	Allocated performance obligations
<u>June 30, 2025</u>			
Recognized by:			
Point in time -			
State contracts	\$ 3,528,005	\$ 388,291	\$ 36,895
Thrift store sales	613,047	-	-
Grant revenues	304,632	93,906	-
Catering revenues	340,023	31,746	-
Community warehouse	131,726	-	-
Passage of time -			
Rent	39,296	2,628	-
	<u>\$ 4,956,729</u>	<u>\$ 516,571</u>	<u>\$ 36,895</u>
	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	-	-
Grant revenues	388,908	89,545	-
Catering revenues	202,224	18,480	-
Community warehouse	16,192	-	-
Passage of time -			
Rent	37,934	-	4,200
	<u>\$ 4,580,766</u>	<u>\$ 468,868</u>	<u>\$ 49,943</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.

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

GAP MINISTRIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2025 and 2024

NOTE 14 – IN-KIND CONTRIBUTIONS

The Organization received donated supplies, food, and fixed assets as follows during the years ended June 30, 2025 and 2024:

	<u>Program Services</u>	<u>General and Administration</u>	<u>Fundraising and Development</u>	<u>Total</u>
<u>June 30, 2025</u>				
Food	\$ 6,643,687	\$ -	\$ -	\$ 6,643,687
Supplies and other	2,084,073	-	-	2,084,073
	<u>\$ 8,727,760</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,727,760</u>
<u>June 30, 2024</u>				
Food	\$ 4,804,706	\$ -	\$ -	\$ 4,804,706
Supplies and other	1,821,276	-	-	1,821,276
	<u>\$ 6,625,982</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,625,982</u>

The Organization received donations totaling \$4,262 and \$44,188 for construction which was capitalized during the years ended June 30, 2025 and 2024, respectively.

NOTE 15 – RELATED-PARTY TRANSACTIONS

GAP leases two other group home facilities from an officer. The monthly lease payment ranges from \$2,900 to \$5,500 with the leases running month to month. Lease expenses related to these homes totaled approximately \$66,000 and \$161,600 for the fiscal years ended June 30, 2025 and 2024, respectively.

GAP also leases one home from an employee. The Organization’s lease expense related to these homes totaled approximately \$36,600 for the fiscal year ended June 30, 2024 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, 2025 are \$-0-.

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

GAP MINISTRIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2025 and 2024

NOTE 16 – COMMITMENTS

The Organization leases office space, vehicles, and group home facilities under operating leases that expire at various dates through December 2029, with current monthly payments between \$563 and \$4,000. The discount rate imputed in the leases was 9.5% as of June 30, 2025 and 2024, 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 of \$318,515 and \$42,187 as of June 30, 2025 and 2024, respectively, and operating lease liabilities of \$333,142 and \$42,187 as of June 30, 2025 and 2024, 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 \$316,825 and \$381,939 for the years ended June 30, 2025 and 2024, respectively.

Minimum future lease payments under operating leases having remaining terms in excess of one year at June 30, 2025, are as follows:

Years ending June 30:		
2026	\$	97,386
2027		93,408
2028		95,676
2029		94,058
2030		<u>25,638</u>
Total minimum future lease payments		406,166
Amount representing interest		<u>(73,024)</u>
Lease liability	\$	<u>333,142</u>

NOTE 17 – STATEMENT OF CASH FLOWS

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash paid for interest was \$303,872 and \$255,843 during the years ended June 30, 2025 and 2024, respectively.

SUPPLEMENTAL DISCLOSURE OF NONCASH FINANCING INFORMATION

The Organization acquired a new kitchen oven 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, 2025. GAP had one contract related to the kitchen add-on construction project in the amount of approximately \$135,000, of which \$42,000 had been paid during September with a remaining commitment of \$93,000.

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

GAP MINISTRIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2025 and 2024

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, 2025, revenues from State of Arizona contracts and in-kind contributions comprised 26% and 54%, respectively, of total revenue and support. At June 30, 2025, State of Arizona receivables accounted for 75% of accounts receivable.

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.

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 May 2025, GCS formed a wholly-owned single-member LLC, Gap Community 05 Market, LLC, whose sole member is GCS. On July 1, 2025, GCS transferred the operations of the “05 Market” program to Gap Community 05 Market, LLC.

Borrowings on the line of credit totaled \$250,000 as of October 28, 2025.

The Organization's management has evaluated the events that have occurred prior to October 29, 2025, 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.

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