

HOUSE OF REFUGE, INC.

Financial Statements and
Independent Auditors' Report

June 30, 2023

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Independent Auditors' Report

To the Board of Directors of
House of Refuge, Inc.
Mesa, Arizona

Opinion

We have audited the accompanying financial statements of House of Refuge, Inc. (the Organization, an Arizona nonprofit corporation), which comprise the statement of financial position as of June 30, 2023, and the related statements of activities, functional expenses, and cash flows for year then ended, and the related notes to the financial statements.

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

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

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

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

Fester & Chapman, PLLC

October 13, 2023

HOUSE OF REFUGE, INC.

Statement of Financial Position

June 30, 2023

ASSETS

Cash	\$ 777,887
Investments	1,981,458
Accounts receivable	9,089
Prepaid expenses	6,055
Endowment investments	79,740
Property and equipment, net	<u>1,953,669</u>
Total assets	<u>\$ 4,807,898</u>

LIABILITIES AND NET ASSETS

Accounts payable	\$ 59,652
Accrued expenses	41,071
Tenant security deposits	<u>12,400</u>
Total liabilities	113,123
Net assets:	
Without donor restrictions	4,515,814
With donor restrictions	<u>178,961</u>
Total net assets	<u>4,694,775</u>
Total liabilities and net assets	<u>\$ 4,807,898</u>

The accompanying notes are an integral part of these financial statements.

HOUSE OF REFUGE, INC.

Statement of Activities

Year ended June 30, 2023

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>Total</u>
Public support and revenue:			
Contributions	\$ 1,758,926	\$ 285,512	\$ 2,044,438
Government grants	229,027		229,027
Special event revenue, net of \$95,601 direct donor benefits	143,319		143,319
In-kind contributions	3,526,437		3,526,437
Rental income	368,966		368,966
Other revenue	117,591		117,591
Net assets released from restriction	<u>326,324</u>	<u>(326,324)</u>	
Total public support and revenue	6,470,590	(40,812)	6,429,778
Expenses:			
Program services - temporary housing	5,151,812		5,151,812
Management and general	232,471		232,471
Fundraising	<u>203,278</u>		<u>203,278</u>
Total expenses	<u>5,587,561</u>		<u>5,587,561</u>
Change in net assets, before other items	883,029	(40,812)	842,217
Net investment gain	24,006	8,629	32,635
Gain on insurance proceeds - fire damage	<u>18,010</u>		<u>18,010</u>
Change in net assets	925,045	(32,183)	892,862
Net assets, beginning of year	<u>3,590,769</u>	<u>211,144</u>	<u>3,801,913</u>
Net assets, end of year	<u>\$ 4,515,814</u>	<u>\$ 178,961</u>	<u>\$ 4,694,775</u>

The accompanying notes are an integral part of these financial statements.

HOUSE OF REFUGE, INC.

Statement of Functional Expenses

Year ended June 30, 2023

	Program Services - Temporary Housing	Supporting Services		Total
		Management and General	Fundraising	
Staff salaries	\$ 722,050	\$ 138,856	\$ 160,670	\$ 1,021,576
Employee-related	213,517	7,226	17,976	238,719
Advertising	12,315	902	13,663	26,880
Bank fees		13,932		13,932
Bad debt	14,674			14,674
Communications	25,005			25,005
Resident support	77,769			77,769
Dues and subscriptions	2,562	1,500	10,969	15,031
Education and training		4,727		4,727
Insurance	56,699			56,699
Postage	1,274	4,857		6,131
Printing	3,608	4,631		8,239
Professional fees	28,384	20,344		48,728
Repair and maintenance	78,985			78,985
Supplies and services	3,740	1,345		5,085
Travel and transportation	9,598	9,649		19,247
Utilities	224,007	7,144		231,151
Volunteers	3,676	3,317		6,993
Miscellaneous		400		400
In-kind	3,526,437			3,526,437
Depreciation	147,512	13,641		161,153
Total expenses	<u>\$ 5,151,812</u>	<u>\$ 232,471</u>	<u>\$ 203,278</u>	<u>\$ 5,587,561</u>

The accompanying notes are an integral part of these financial statements.

HOUSE OF REFUGE, INC.

Statement of Cash Flows

Year ended June 30, 2023

Cash flows from operating activities:	
Change in net assets	\$ 892,862
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	161,153
Net unrealized gain on investments	(32,635)
Changes in:	
Government grants receivable	26,527
Accounts receivable	7,660
Prepaid expenses	(6,055)
Accounts payable	(160,772)
Accrued expenses	6,941
Refundable advances	(128,398)
Tenant security deposits	<u>(2,800)</u>
Net cash provided by operating activities	764,483
Cash flows from investing activities:	
Purchases of property and equipment	(249,927)
Purchases of investments	<u>(1,499,270)</u>
Net cash used by investing activities	<u>(1,749,197)</u>
Change in cash	(984,714)
Cash, beginning of the year	<u>1,762,601</u>
Cash, end of the year	<u><u>\$ 777,887</u></u>

The accompanying notes are an integral part of these financial statements.

HOUSE OF REFUGE, INC.

Notes to Financial Statements

June 30, 2023

NOTE 1 - BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

House of Refuge, Inc. (the “Organization”) is a nonprofit organization dedicated to assisting homeless individuals and families in the State of Arizona. Founded in April 17, 1996, the Organization’s purpose is to provide transitional housing and social service programs specific to the needs of homeless families as they strive to seek and obtain permanent housing. Participants receive continued support for up to 12 months. With continued support, they gain the knowledge to begin the recovery phase toward a more self-sufficient lifestyle. On any given day, approximately 250 people call House of Refuge home. Through their consistent hard work and dedication, the participants can make the positive changes required to change their immediate circumstances, and significantly alter their future, the future of their children, and generations to come.

The significant accounting policies of the Organization are as follows:

Basis of Presentation: Financial statement presentation follows the recommendations of the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) topic of *Not-for-Profit Entities*, requiring the Organization to report information regarding its financial position and activities according to the following net asset classifications:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net Assets With Donor Restrictions – Net assets subject to donor- (or certain grantor-) 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.

Use of Estimates: In preparing financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP), management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

HOUSE OF REFUGE, INC.

Notes to Financial Statements

June 30, 2023

NOTE 1 - BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -
CONTINUED

Property and Equipment: Purchased property and equipment of \$1,000 or greater are recorded at cost, or if donated, at estimated fair value at the date of gift. Depreciation is computed using the straight-line method based on estimated useful lives of the assets as follows:

Building	20 - 30 years
Leasehold improvements	Lesser of the estimated useful life or remaining term of the applicable lease
Vehicles	3 - 7 years
Equipment	3 - 10 years

Tenant Security Deposits: All tenant security deposits are deposited and held for the tenants until they vacate the property.

Revenue and Revenue Recognition: Special events revenue is comprised of an exchange element based upon the direct benefits donors receive and a contribution element for the difference. Special events revenue is recognized in an amount equal to the fair value of direct benefits to donors when the special event takes place. The contribution element of special event revenue is recognized immediately, unless there is a right of return if the special event does not take place.

Contributions are recognized as revenue when cash, securities or other assets, an unconditional promise to give, or a notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met.

HOUSE OF REFUGE, INC.

Notes to Financial Statements

June 30, 2023

NOTE 1 - BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -
CONTINUED

Contributions: Contributions are reported in accordance with the FASB ASC subtopic of *Revenue Recognition for Not-for-Profit Entities*. Contributions received are recorded as net assets without donor restrictions or with donor restrictions, depending on the existence and/or nature of any donor restrictions. All donor restricted support is reported as an increase in net assets with donor restrictions depending on the nature of the restriction. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

The use of donated property is recorded as contributions at the estimated fair value at the date of donation, and shown as revenues and expenses in the financial statements. Donated services are recorded when the following criteria are met:

- i) The services require specialized skills, the services are provided by individuals possessing those skills, and the services would typically need to be purchased if not donated; or
- ii) The services enhance or create an asset.

Donated space is valued at the fair value of similar properties available in residential real estate listings. Donated consumer staples and food are valued using donor's estimates.

Functional Expenses: The costs of providing various program and supporting services have been presented on a functional basis in the statements of activities and functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on estimates of facility usage and the estimated percentage of payroll costs benefiting the program or supporting services. Payroll and related expenses are allocated based on estimates of time and effort devoted to each function. Depreciation and utilities are allocated based on square footage.

HOUSE OF REFUGE, INC.

Notes to Financial Statements

June 30, 2023

NOTE 1 - BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -
CONTINUED

Income Taxes: The Organization is exempt from federal and state income taxes as an organization other than a private foundation under Section 501(c)(3) of the Internal Revenue Code and similar state provisions.

Credit Risk: The Organization maintains cash and investments that are insured in limited amounts by the Federal Deposit Insurance Corporation (FDIC), or covered by Securities Investor Protection Corporation (SIPC). Balances may at times exceed insured or covered amounts. Management believes it is not exposed to any significant credit risk on cash and investment balances.

NOTE 2 - LIQUIDITY AND AVAILABILITY

The Organization monitors its liquidity so that it is able to meet its operating needs and other contractual commitments. The Organization has the following financial assets that could readily be made available within one year of its fiscal year end to fund expenses without limitations:

Financial assets:	
Cash	\$ 777,887
Investments	1,981,458
Accounts receivable	9,089
Endowment investments	<u>79,740</u>
Total financial assets	2,848,174
Less amounts unavailable for general expenditure within one year:	
Net assets with donor restrictions	<u>(178,961)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 2,669,213</u>

In addition to financial assets available to meet general expenditures over the year, the Organization operates with a balanced budget and anticipates covering its general expenditures by collecting contributions, rental income, and other revenues.

HOUSE OF REFUGE, INC.

Notes to Financial Statements

June 30, 2023

NOTE 3 - INVESTMENTS AND FAIR VALUE MEASUREMENTS

GAAP establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 inputs are unadjusted quoted market prices in active markets for similar or identical assets or liabilities that the Organization has the ability to access at the measurement date.

Level 2 inputs are based on significant observable inputs, including unadjusted quoted market prices for similar assets and liabilities in active markets, unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability. At June 30 2023, the Organization did not have any financial instruments it valued based on Level 2 inputs.

Level 3 inputs are significant unobservable inputs for an asset or a liability. At June 30, 2023 the Organization did not have any financial instruments it valued based on Level 3 inputs.

The level of the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

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

Mutual funds and money market funds: Valued at the net asset value (NAV) of shares on the last trading day of the fiscal year end, which is the basis for transactions at that date.

The Organization's level 1 inputs at fair market value for the year-ended June 30, 2023, are as follows:

Investments:	
Open-ended mutual funds	\$ 477,710
Money market funds	<u>1,503,748</u>
Total investments	1,981,458
Endowment - mutual funds	<u>79,740</u>
Total level 1 inputs	<u>\$ 2,061,198</u>

HOUSE OF REFUGE, INC.

Notes to Financial Statements

June 30, 2023

NOTE 4 - ENDOWMENT FUND

In 2020, the Organization created an endowment fund (the Fund), with a long-term goal to provide the Organization with a reasonable level of current income from investments while maintaining or enhancing the purchasing power of the Fund.

The objective of the Fund is to provide a relatively predictable and stable payout stream that increases over time at least as fast as the general rate of inflation, and to achieve growth of the corpus that increases over time at least as fast as the general rate of inflation. The Organization has adopted investment and spending policies based on the requirements of the State Prudent Management of Institutional Funds Act (SPMIFA). Contributions to the endowment fund are classified as net assets with donor restrictions.

Investment earnings available for distribution are recorded as net assets with donor restrictions until appropriated by the Board of Directors for expenditure. In accordance with SPMIFA, the Organization considers the following factors in making a determination to appropriate endowment funds for expenditures: the duration and preservation of the fund; general economic conditions; the possible effect of inflation and deflation of endowment investments; the expected total return from income and appreciation of endowment investments; other financial resources of the Organization; and the investment policies of the Organization. The Organization has adopted a spending policy that all income earned on the Fund's investments will be reinvested until such time as the principal of the Fund has reached \$250,000 before considering distributions. Once the Fund has reached \$250,000, no more than one distribution per year will be taken as computed and allocated by the Finance Committee with approval by the Board of Directors.

The Finance Committee, in order to implement the investment policy of the Organization has established the following investment policy guidelines:

1. The endowment fund will be diversified both by asset class (e.g. common stocks, bonds, and cash) and within asset classes (e.g. within common stocks by economic sector, industry, quality, and market capitalization). The purpose of diversification is to enhance potential returns, lower potential volatility, and ensure that no one security or asset class will have a disproportionate impact on the endowment Fund.
2. The Board of Directors, on advice of the Finance Committee in conjunction with the professional investment manager(s), will establish long-term ranges of investment classes. However, changes to asset allocation are expected to be infrequent.

At June 30, 2023, the Organization's endowment funds consisted of investments in a large-blend mutual fund.

HOUSE OF REFUGE, INC.

Notes to Financial Statements

June 30, 2023

NOTE 4 - ENDOWMENT FUND - CONTINUED

A summary of endowment fund activity follows for the year ended June 30, 2023:

	<u>With Donor Restrictions</u>
Endowment net assets, beginning of year	\$ 71,111
Investment income	<u>8,629</u>
Endowment net assets, end of year	<u><u>\$ 79,740</u></u>

NOTE 5 - PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following at June 30, 2023:

Land and improvements	\$ 588,101
Building	3,917,261
Leasehold improvements	55,897
Vehicles	82,088
Equipment	218,092
Construction in progress	<u>79,136</u>
	4,940,575
Less accumulated depreciation	<u>(2,986,906)</u>
Total property and equipment, net	<u><u>\$ 1,953,669</u></u>

NOTE 6 - NET ASSETS WITH DONOR RESTRICTIONS

During the year ended June 30, 2023, the Organization received \$285,512 in restricted contributions. Net assets with donor restrictions at June 30, 2023, were restricted for the following purposes:

Endowment fund (see Note 4)	\$ 79,740
Employment and education center	43,771
Family services	10,851
Community center	5,000
Rental facility repair and maintenance	26,399
Donation center	<u>13,200</u>
	<u><u>\$ 178,961</u></u>

HOUSE OF REFUGE, INC.

Notes to Financial Statements

June 30, 2023

NOTE 6 - NET ASSETS WITH DONOR RESTRICTIONS - CONTINUED

Net assets released from restrictions for the year ended June 30, 2023, were as follows:

Employment and education center	\$ 55,693
Family services	222,386
Community center	10,500
Rental facility repair and maintenance	31,294
Donation center	6,451
	<u>\$ 326,324</u>

NOTE 7 - IN-KIND CONTRIBUTIONS

In-kind support for the Organization's programs is summarized as follows for fiscal year ended June 30, 2023:

Use of donated property	\$ 745,824
Consumer staples and food	2,777,044
Other	3,569
Total in-kind contributions	<u>\$ 3,526,437</u>

NOTE 8 - DEFINED CONTRIBUTION RETIREMENT PLAN

The Organization has a 401(k) defined contribution retirement plan which allows employees upon completion of 60 days to participate. Under the plan, the Organization provides matching contributions of up to 4 percent of each participating employee's salary. The Organization's contributions to the plan were \$9,905 for the year ended June 30, 2023.

NOTE 9 - SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through October 13, 2023, the date the Organization's financial statements were available to be issued.