SEATTLE'S UNION GOSPEL MISSION AND SUBSIDIARY

FINANCIAL REPORT

AUGUST 31, 2015

C O N T E N T S

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Seattle's Union Gospel Mission and Subsidiary
Seattle, Washington

We have audited the accompanying consolidated financial statements of Seattle's Union Gospel Mission and Subsidiary (collectively, "the Organization"), which comprise the consolidated statement of financial position as of August 31, 2015, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States; this includes 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Seattle's Union Gospel Mission and Subsidiary as of August 31, 2015, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States.

Report on Summarized Comparative Information

We have previously audited the 2014 consolidated financial statements of Seattle's Union Gospel Mission and Subsidiary, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 18, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Peterson Sullivan LLP

November 24, 2015

SEATTLE'S UNION GOSPEL MISSION AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

August 31, 2015
(With Comparative Totals for 2014)

ASSETS	2015	2014
Current Assets		
Cash and cash equivalents	$ 1,209,951	$ 499,281
Pledges and estates receivable, net	614,766	
Inventory	1,189,842	1,103,770
Prepaid expenses and other	211,621	622,541
Current portion of note receivable		17,905,837
Cash restricted for loan reserves		141,455
Capitalized financing costs, net		25,828
Total current assets	3,226,180	20,298,712
Pledges and Estates Receivable - Long-term		335,857
Investments	4,531,396	6,582,394
Land, Buildings, and Equipment, net	34,016,705	33,974,151
Total assets	$ 41,774,281	$ 61,191,114

LIABILITIES AND NET ASSETS	2015	2014
Current Liabilities		
Accounts payable	$ 497,345	$ 232,691
Accrued expenses	372,298	389,704
Current portion of gift annuities payable	21,330	30,500
Current portion of notes payable	125,186	18,024,490
Total current liabilities	1,016,159	18,677,385
Gift Annuities Payable, net of current portion	82,144	116,219
Notes Payable, net of current portion	1,855,594	7,478,868
Deferred Rent Liability	90,000	90,000
Total liabilities	3,043,897	26,362,472
Net Assets		
Unrestricted	38,606,371	34,632,232
Temporarily restricted		72,397
Permanently restricted	124,013	124,013
Total net assets	38,730,384	34,828,642
Total liabilities and net assets	$ 41,774,281	$ 61,191,114

See Notes to Consolidated Financial Statements

SEATTLE'S UNION GOSPEL MISSION AND SUBSIDIARY

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Year Ended August 31, 2015
(With Comparative Totals for 2014)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2015	Total 2014
Operating					
Support and revenue					
Contributions					
Individuals	$ 11,447,866	$ -	$ -	$ 11,447,866	$ 10,721,526
Churches	302,954			302,954	202,587
Companies	841,027			841,027	699,337
Foundations	1,123,215			1,123,215	1,017,169
Organizations	378,406			378,406	427,221
Estates	1,455,981			1,455,981	1,337,166
Donated goods and services	4,379,982			4,379,982	3,275,727
Catalyst event, less direct costs of $201,966 in 2015 and $162,346 in 2014	1,312,628			1,312,628	784,800
Net assets released from restrictions	72,397	(72,397)			
Total contributions	21,314,456	(72,397)		21,242,059	18,465,533
Rental income	91,405			91,405	100,211
Program fees and other income	325,249			325,249	512,728
Change in value of split interest agreements	9,515			9,515	(14,525)
Investment return	661,370			661,370	2,482,682
Total support and revenue	22,401,995	(72,397)		22,329,598	21,546,629
Expenses					
Program services	19,391,178			19,391,178	18,915,288
Supporting services					
Management and general	1,640,782			1,640,782	1,445,698
Fundraising	2,825,525			2,825,525	2,960,688
Total supporting services	4,466,307			4,466,307	4,406,386
Total operating expenses	23,857,485			23,857,485	23,321,674
Change in net assets - operating	**(1,455,490)**	**(72,397)**		**(1,527,887)**	**(1,775,045)**
Nonoperating					
Capital campaign contributions					9,505
Capital campaign fundraising expenses					(8,734)
Gain on expiration of NMTC	5,456,699			5,456,699	
Loss on disposal of fixed assets and other	(27,070)			(27,070)	230,151
Change in net assets - nonoperating	**5,429,629**			**5,429,629**	**230,922**
Total change in net assets	**3,974,139**	**(72,397)**		**3,901,742**	**(1,544,123)**
Net assets, beginning of year	34,632,232	72,397	124,013	34,828,642	36,372,765
Net assets, end of year	$ 38,606,371	$ -	$ 124,013	$ 38,730,384	$ 34,828,642

See Notes to Consolidated Financial Statements

SEATTLE'S UNION GOSPEL MISSION AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended August 31, 2015
(With Comparative Totals for 2014)

	Program Services	Management and General	Fundraising	Total 2015	Total 2014
Salaries	$ 6,783,824	$ 748,079	$ 552,645	$ 8,084,548	$ 7,553,924
Employee benefits	1,639,841	159,634	102,070	1,901,545	1,781,602
Payroll taxes	464,523	43,810	40,088	548,421	535,038
Total personnel costs	8,888,188	951,523	694,803	10,534,514	9,870,564
In-kind gifts used	3,411,248	12,539	3,135	3,426,922	2,771,301
Marketing, design, and data services	586,765	5,924	1,057,406	1,650,095	1,670,512
Depreciation and amortization	1,440,925	21,148	13,222	1,475,295	1,618,062
Program and religious material	942,949	1,201	36,568	980,718	845,089
Other expenses	410,416	263,099	145,209	818,724	581,838
Production and printing services	226,546	10	481,828	708,384	711,013
Utilities	598,254	6,516	5,966	610,736	637,130
Postage	164,560	23,545	342,955	531,060	469,093
Professional services	230,838	227,374	51,218	509,430	166,381
Maintenance and repair	348,992	24,682	12,129	385,803	428,030
Interest expense and other financing costs	328,748			328,748	1,365,726
Insurance	287,562	9,105	7,447	304,114	229,153
Rent	285,748	5,766		291,514	567,321
Auto and truck expenses	240,953	7,449	10,627	259,029	288,124
Food cost	252,679	1,330	30	254,039	273,490
Household expenses	185,767	1,040	428	187,235	203,597
Advertising costs	60,288		125,473	185,761	152,062
Telephone	129,649	13,244	17,720	160,613	146,983
Industrial insurance	140,360		3,893	144,253	141,424
Travel and conventions	105,593	25,905	7,010	138,508	86,453
Staff training and education	75,344	31,170	2,238	108,752	59,770
Office supplies	48,806	7,355	8,186	64,347	60,503
Bad debt expense		857		857	2,000
New Markets Tax Credit Program fees					147,135
Total expenses	19,391,178	1,640,782	3,027,491	24,059,451	23,492,754
Less expenses netted against revenue on the Statement of Activities			(201,966)	(201,966)	(162,346)
Total expenses included on the Statement of Activities	$ 19,391,178	$ 1,640,782	$ 2,825,525	$ 23,857,485	$ 23,330,408

See Notes to Consolidated Financial Statements

SEATTLE'S UNION GOSPEL MISSION AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended August 31, 2015
(With Comparative Totals for 2014)

	2015	2014
Cash Flows from Operating Activities		
Change in net assets	$ 3,901,742	$ (1,544,123)
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation and amortization	1,475,295	1,618,062
Unrealized and realized gains on investments	(100,920)	(1,038,447)
Provision for uncollectible pledges receivable		(4,000)
Change in value of gift annuity agreements	(43,245)	(19,158)
Gain on insurance settlement and other		(230,151)
Contributions restricted by donors for capital campaign		(9,505)
Loss on disposal of fixed assets	57,306	
Contributions of land and buildings	(934,000)	
Gain on expiration of NMTC agreement	(5,456,699)	
Decrease (increase) in operating assets:		
Inventory	(86,072)	(329,286)
Prepaid expenses and other	297,973	(53,006)
Pledges receivable	(278,909)	382,070
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	247,248	(309,550)
Deferred rent liability		90,000
Net cash flows from operating activities	(920,281)	(1,447,094)
Cash Flows from Investing Activities		
Decrease in cash restricted for reserves	141,455	153,883
Purchase of land, buildings, and equipment	(615,327)	(1,514,027)
Proceeds from insurance for replacement of building		230,151
Funding of note receivable		(1,028,081)
Purchase of investments	(1,108,862)	(2,744,573)
Proceeds from sales of investments	3,260,780	5,521,404
Net cash flows from investing activities	1,678,046	618,757
Cash Flows from Financing Activities		
Payments on notes payable	(119,845)	(79,652)
Proceeds from notes payable	72,750	960,000
Net cash flows from financing activities	(47,095)	880,348
Net change in cash and cash equivalents	**710,670**	**52,011**
Cash and cash equivalents, beginning of year	499,281	447,270
Cash and cash equivalents, end of year	$ 1,209,951	$ 499,281

Supplemental Disclosure of Cash Flow Information:

Cash paid during the year for interest	$ 328,748	$ 1,365,726

See Notes to Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Organization and Significant Accounting Policies

Seattle's Union Gospel Mission ("the Mission") was organized by representatives from Seattle area churches and the founding director, the Reverend Francis O. Peterson, in 1932. The Mission is managed by a Board of Trustees elected for staggered terms at the annual meeting of the Mission. The objectives and purposes of the Mission are the preaching of the gospel of Jesus Christ by conducting rescue mission work in the City of Seattle.

A rescue mission is the church's emergency station doing what the Bible tells the church to do, "Feed the hungry, preach to the captive, clothe the naked," etc., things which the church cannot do well due to the special need for facilities, special calling and training, and the high cost of doing it alone. The programs include emergency shelters, assistance recovery programs, day and resident camping, youth programs, counseling and jail ministry, feeding programs, and outreach programs to low income families and elderly.

The Mission is a member of the Evangelical Council for Financial Accountability ("the Council"). The Council is an association requiring the highest standards of financial accountability and disclosures, and has become an effective national self-regulatory organization for the purpose of showing the giving public that the gifts are being spent and accounted for in a responsible manner.

The Mission is also a member of the Association of Gospel Rescue Missions and the Christian Leadership Alliance.

Principles of Consolidation

The consolidated financial statements include the accounts of the Mission and UGM Landowner (collectively, "the Organization"). All intra-entity transactions have been eliminated.

UGM Landowner is a separate nonprofit corporation created in 2007 to purchase and hold certain real property to be used in the Mission's operations. UGM Landowner is controlled by the Mission and is therefore included in the consolidated financial statements of the Organization.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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 financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Financial Statement Presentation

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

- Unrestricted Net Assets - Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets consist of the following at August 31:

	2015	2014
Undesignated, available for operations	$ 31,092,756	$ 26,204,974
Board-designated reserves:		
Operating Reserve	4,801,950	4,925,000
General Reserve	1,678,870	1,825,000
Lighthouse Reserve	1,032,795	1,140,117
Capital Projects		537,141
	$ 38,606,371	$ 34,632,232

- Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time. Temporarily restricted net assets consist of the following at August 31:

	2015	2014
Capital and property improvements	$ -	$ 65,294
Unappropriated investment income		7,103
	$ -	$ 72,397

- Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that will be maintained permanently by the Organization. Generally, the donors of these assets permit the use of all or part of the income earned on related investments for general or specific purposes.

Cash and Cash Equivalents

For the purpose of the consolidated statement of cash flows, the Organization considers all short-term securities with maturities of three months or less, except for those held in its investment portfolios, to be cash equivalents. The Organization maintains its cash and cash equivalents and investments in depository institution accounts that, at times, may exceed federally insured limits.

Receivables

Pledges, notes, and estates receivable are stated at the amount management expects to collect from outstanding balances. Long-term contributions are recognized at fair value (at the time of the donation) and are measured at the present value of their cash flows. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to the corresponding receivable.

Inventory

Inventory consists of donated goods, including food, clothing, office supplies, and other items. Inventories are stated at the lower of cost or market. Cost is estimated based on fair value for donated goods and is determined using the first-in, first-out method.

Investments

Investments are reported at fair value. Realized and unrealized gains and losses are reflected in the consolidated statement of activities. The investments have been classified as long-term assets based on management's intent not to use the investments in the near term.

Land, Buildings, and Equipment

Land, buildings, and equipment are recorded at cost or, if donated, at the estimated fair value at the date of donation. Improvements are capitalized while expenditures for maintenance and repairs are charged to expense as incurred. Depreciation has been provided for equipment and vehicles on the straight-line basis over 4 to 10 years. Depreciation has been provided for buildings and facilities on the straight-line basis over 31 to 50 years. Leasehold improvements are amortized over the shorter of the duration of the lease or the useful life.

The Organization reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the assets to the future net undiscounted cash flows expected to be generated by the assets including any estimated proceeds from the eventual disposition of the assets. If the assets are considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the assets exceeds their fair value. No impairment losses were recognized during the years ended August 31, 2015 or 2014.

Capitalized Financing Costs

Capitalized financing costs were being amortized using the straight-line method over the terms of the respective loans. Accumulated amortization of capitalized financing costs as of August 31, 2014, was $1,212,720. These financing costs were capitalized as part of the NMTC agreement, which expired on December 22, 2014 (See Note 6).

Contributions

Contributions are recorded when the pledges are made. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

Donated Goods and Services

Donated goods and services revenue totaled $3,517,837 and $3,275,727 for the years ended August 31, 2015 and 2014, respectively. Donated goods include food, clothing, and supplies, and are recorded at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated item to a specific purpose. Donated goods totaled $3,211,488 and $2,597,087 for the years ended August 31, 2015 and 2014, respectively. Donated services are recognized if the services received (1) create or enhance non-financial assets or (2) require specialized skills, are provided by individuals possessing those skills, and would need to be purchased if not provided by donation. Donated dental and legal services totaled $306,349 and $678,640 for the years ended August 31, 2015 and 2014, respectively.

Operating and Nonoperating Activities

All activities are considered operating except for revenues, expenses, gains, and losses related to the capital campaign, and property sales.

Advertising Costs

The Organization expenses its advertising costs as incurred.

Restricted and Unrestricted Revenue and Support

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the reporting period in which the revenue is recognized, except for capital campaign contributions. All other temporarily restricted donor contributions are reported as increases in temporarily restricted net assets. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

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 support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor.

Catalyst Event

Catalyst is the Organization's annual fundraising gala event. The event is held every year in October as part of the Organization's fall fundraising efforts and is designed to raise non-designated monies through ticket sales, principal and table sponsorships, auction items, and individual gifts from attendees. Catalyst event revenues and expenses are recognized at the time the event occurs. Event revenue received prior to the event is recorded as deferred revenue. Event expenses paid prior to the date of the event are recorded as prepaid expenses.

Federal Income Tax

The Mission and UGM Landowner have both been notified by the Internal Revenue Service that they are exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statement of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Summarized Information from Prior Year

The financial information includes certain prior year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States. Accordingly, such information should be read in conjunction with the Organization's consolidated financial statements for the year ended August 31, 2014, from which the summarized information was derived.

Subsequent Events

The Organization has evaluated subsequent events through the date these consolidated financial statements were available to be issued, which was November 24, 2015.

Note 2. Pledges and Estates Receivable

Included in pledges and estates receivable as of August 31 were the following unconditional promises to give:

	2015	2014
Due to be collected:		
In less than one year	$ 614,766	$ 336,086
One to five years		810
	614,766	336,896
Less discount to net present value		(39)
Less allowance for doubtful pledges		(1,000)
	$ 614,766	$ 335,857

The above total of pledges due in less than one year is composed entirely of estates receivable and unconditional promises to give. As of August 31, 2014, these pledges are reported as noncurrent on the consolidated statement of financial position as they have been restricted by donors or designated by the Organization's Board for investment in property and equipment. There are no restrictions by donors or designations by the Organization's Board on these pledges as of August 31, 2015.

At August 31, 2015 and 2014, 95% and 73% of the Organization's pledges and estates receivable were from two and three individual estates, respectively.

Note 3. Investments

Investments are reported at fair value using a fair value hierarchy that prioritizes the inputs to valuation approaches into three broad levels. The hierarchy gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable inputs (Level 3). Investments are valued using Level 1 inputs based on unadjusted quoted market prices within active markets such as national exchanges.

Investments consisted of the following at August 31:

	2015	2014
Money market funds	$ 100,437	$ 677,375
Fixed income securities		
Municipal bonds	821,589	1,033,784
Certificates of deposit	557,045	356,945
U.S. government bonds		282,894
Corporate bonds	77,060	78,918
Agency securities		
Equity securities		
Domestic stocks	940,066	1,217,371
International stocks	173,644	148,934
Mutual funds		
Large cap mutual funds	1,312,742	1,954,501
Mid cap mutual funds	250,479	322,347
International mutual funds	106,598	261,044
Other	94,321	139,451
Fixed income mutual funds	86,763	94,845
Small cap mutual funds	10,652	13,985
Total	$ 4,531,396	$ 6,582,394

Investment return for the years ended August 31 was as follows:

	2015	2014
Dividends and interest	$ 119,633	$ 182,366
Unrealized and realized gains	100,920	1,038,447
Investment fees	(29,181)	(34,466)
	191,372	1,186,347
Interest earned on cash accounts and notes receivable	469,998	1,296,335
	$ 661,370	$ 2,482,682

Note 4. Land, Buildings, and Equipment

Land, buildings, and equipment consisted of the following at August 31:

	2015	2014
Land	$ 2,951,224	$ 2,617,224
Buildings and facilities	39,425,121	38,511,555
Equipment and vehicles	7,618,341	7,572,748
Leasehold improvements	250,093	250,093
	50,244,779	48,951,620
Less accumulated depreciation and amortization	(16,228,074)	(14,977,469)
Total land, buildings, and equipment	$ 34,016,705	$ 33,974,151

In July 2011, a fire destroyed a four-story apartment building and an adjacent smaller building owned by the Organization. During the year ended August 31, 2012, the Organization received $1,032,815 of the insurance proceeds and recorded a loss of $111,565 for the amount of the initial insurance settlement not expected to be received. During the years ended August 31, 2015 and 2014, the Organization recognized gains of $0 and $152,802 due to additional insurance proceeds recovered, net of associated expenses. The Organization is currently in negotiations with its insurance provider on any remaining settlement to be received.

Note 5. Notes Receivable

Notes receivable at August 31, 2014, was a note receivable due from Consortium America Investment Fund XII, LLC; with monthly interest payments of 7.26% per annum; secured by land and a building and maturing December 2032. The Organization offset the note receivable against two of the New Markets Tax Credit note payables due during the year ended August 31, 2015 (described in Note 6).

Note 6. Notes Payable

Notes payable consisted of the following at August 31:

	2015	2014
Note payable to Mississippi Valley Life Insurance Company; bearing no interest; principal will be forgiven at maturity in April 2024, provided no default or breach has occurred; secured by a Deed of Trust.	$ 1,000,000	$ 1,000,000
Note payable to First Sound Bank; bearing interest at 4% per annum; principal and interest payment of $11,723 due monthly until note matures on November 1, 2021; secured by a Deed of Trust on real property owned by the Organization.	784,849	891,333
Note payable to King County; bearing interest at 4.13% per annum; principal and interest payment of $4,662 due quarterly until note matures in December 2023; no collateral requirements; used to finance sewage connection and related costs associated with the construction of Hope Place.	125,029	136,542
Note payable to Consortium America XII LLC; was offset by note receivable (see Note 5).		10,602,814
Note payable to Consortium America XII LLC; was forgiven consistent with NMTC agreement (see below).		2,872,669
Note payable to ESIC New Markets Partners XXVII LP; was offset by note receivable (see Note 5).		7,303,029
Note payable to ESIC New Markets Partners XXVII LP; was forgiven consistent with NMTC agreement (see below).		2,696,971
Note payable to 1st Security Bank; bearing interest at 5.5%; principal and interest payments of $451 due monthly until maturity at April 1, 2019, at which time final payment of $65,521 is due; secured by a Deed of Trust on property owned by the Organization.	70,902	
	1,980,780	25,503,358
Less current portion	(125,186)	(18,024,490)
Noncurrent portion	$ 1,855,594	$ 7,478,868

Principal maturities are as follows for the years ending August 31:

2016	$ 125,186
2017	130,493
2018	136,026
2019	206,028
2020	151,247
Thereafter	1,231,800
	$ 1,980,780

New Market Tax Credit Financing

In December 2007, the Organization entered into a New Markets Tax Credit transaction to help finance the construction of Hope Place.

The New Markets Tax Credit Program was designed to stimulate investment and economic growth in low-income communities by offering a seven-year, 39% federal tax credit for Qualified Equity Investments ("QEI") made through investment vehicles known as Community Development Entities ("CDE"). CDEs use capital derived from tax credits to make loans to or investments in businesses and projects in low-income areas.

As a part of the transaction, the Organization was obligated to provide $17,905,844 to Consortium America Investment Fund XII LLC ("Consortium"), the QEI, via a note receivable. See Note 5 for a further description of the note receivable.

There were four separate promissory notes signed on December 20, 2007, to borrow a total of $23,475,483 from Consortium America Fund XII LLC and ESIC New Markets Partners XXVII LP (the CDEs for the project). The promissory notes called for certain covenants with which the Organization had to comply. At August 31, 2014, the Organization was not in compliance with one of its covenants. However, the Organization obtained a waiver of the covenant until the end of the next fiscal year.

Neither the Mission nor UGM Landowner controlled or had an economic interest in the assets of either the QEI or the CDEs. The QEI was controlled and partially financed by US Bank and the QEI controlled and funded the CDE.

To earn the tax credit, the QEI had to remain invested in the CDE for a seven-year period ended December 2014. The Mission and US Bank entered into a put/call option agreement to take place at the end of the seven-year period. Under the agreement, US Bank could exercise a put option to sell all interest in the QEI for $1,000 to the Mission.

On December 22, 2014, US Bank exercised the put option and sold all interest in the QEI to the Mission for $1,000. The Mission was the sole investor in the QEI and Hope Place Project. As a part of the put option being exercised, the $17,905,844 note receivable, and associated interest receivable, was offset by the $23,475,483 of notes payable, with the remaining $5,456,699 balance recorded as nonoperating income in the Statement of Activities and Changes in Net Assets.

Note 7. Gift Annuities Payable/Split Interest Agreements

The Organization administers gift annuities for which it is obligated to make periodic distributions to designated beneficiaries. Contributed assets are recorded at fair value as general assets of the Organization at the date of receipt, and a liability is established for the present value of future annuity payments. The present value of the payments due to the beneficiaries is recorded as a liability and totaled $103,474 and $146,719 at August 31, 2015 and 2014, respectively. Net present values are calculated using the applicable federal discount rate at the date of the gift. The annuity liability is revalued annually based upon actuarially computed present values. The change in value for the years ended August 31, 2015 and 2014, was a gain of $43,245 and $19,158, respectively.

Note 8. Commitments and Other

Warehouse and Housing Leases

In June 2013, the Organization entered into an agreement to lease warehouse space in Kent, Washington, with a lease term ending January 31, 2021. The monthly base rent ranges from $16,040 to $18,148 over the period of the lease term. In addition, the Organization is obligated to pay its pro rata share of the building's operating expenses, taxes, and insurance. The Organization recognizes the related rent expense on a straight-line basis over the term of the lease. The Organization records the difference between the recognized rental expense and amounts payable under the lease agreements as deferred rent. The Organization's liability for deferred rent totaled $90,000 as of August 31, 2015 and 2014, and is recorded as a non-current liability.

Future minimum lease payments under non-cancelable operating leases are as follows for the years ending August 31:

2016	$ 176,841
2017	197,703
2018	202,645
2019	207,708
2020	212,903
Thereafter	90,740
	$ 1,088,540

Other Operating Leases

The Organization has entered into lease agreements to lease some of the Organization's building space as a lessor. The Organization is unable to determine the cost of the building and accumulated depreciation that is allocated to the lease agreements. The leases have expiration dates expiring no later than January 2020.

Future minimum rental income to be received under non-cancelable operating leases are as follows for the years ending August 31:

2016	$ 77,947
2017	78,613
2018	79,305
2019	52,943
2020	1,566
	$ 290,374

Retirement Plan

The Organization has established a defined contribution retirement plan ("the Plan"). Participation in the Plan is voluntary. Participants are eligible to contribute salary reductions on their first day of employment. Participants are eligible for employer contributions when they have completed 90 days of service, work at least 37.5 hours per week, and have attained age 21. The Organization will match 50% of each participant's contribution, up to 4% of the participant's salary. For the years ended August 31, 2015 and 2014, the total retirement plan expense was $76,413 and $66,465, respectively.

Note 9. Allocation of Joint Costs

The Organization conducts activities that include requests for contributions as well as program components. These activities include direct mail letters, newspaper space ads, newsletters, brochures, and other such items. The costs of conducting these activities are not specifically attributable to particular components of the activities (joint costs). Material costs are allocated to fundraising based on the actual percentage of the item or event used for fundraising. Personnel costs are allocated based on estimates of the percent of annual time worked on the aforementioned activities and publications. Total joint costs for the years ended August 31, 2015 and 2014, were $3,114,558 and $3,941,775, respectively, of which $934,377 and $1,262,610 were allocated to program and $2,180,181 and $2,679,165 were allocated to fundraising.

SUPPLEMENTARY INFORMATION

petersonsullivan LLP
Certified Public Accountants
& Advisors

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

To the Board of Trustees
Seattle's Union Gospel Mission and Subsidiary
Seattle, Washington

We have audited the consolidated financial statements of Seattle's Union Gospel Mission and Subsidiary as of and for the year ended August 31, 2015, and have issued our report thereon dated November 24, 2015, which contained an unmodified opinion on those consolidated financial statements. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statement of financial position is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Peterson Sullivan LLP

November 24, 2015

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SEATTLE'S UNION GOSPEL MISSION AND SUBSIDIARY

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

August 31, 2015

ASSETS	Seattle's Union Gospel Mission	UGM Landowner	Total
Current Assets			
Cash and cash equivalents	$ 1,165,306	$ 44,645	$ 1,209,951
Pledges and estates receivable, net	614,766		614,766
Inventory	1,189,842		1,189,842
Prepaid expenses and other	211,621		211,621
Total current assets	3,181,535	44,645	3,226,180
Investments	4,531,396		4,531,396
Land, Buildings, and Equipment, net	10,849,059	23,167,646	34,016,705
Total assets	$ 18,561,990	$ 23,212,291	$ 41,774,281

LIABILITIES AND NET ASSETS	Seattle's Union Gospel Mission	UGM Landowner	Total
Current Liabilities			
Accounts payable	$ 497,345	$ -	$ 497,345
Accrued expenses	372,298		372,298
Current portion of gift annuities payable	21,330		21,330
Current portion of notes payable	125,186		125,186
Total current liabilities	1,016,159		1,016,159
Gift Annuities Payable, net of current portion	82,144		82,144
Notes Payable, net of current portion	1,855,594		1,855,594
Deferred Rent Liability	90,000		90,000
Total liabilities	3,043,897		3,043,897
Net Assets			
Unrestricted	15,394,080	23,212,291	38,606,371
Permanently restricted	124,013		124,013
Total net assets	15,518,093	23,212,291	38,730,384
Total liabilities and net assets	$ 18,561,990	$ 23,212,291	$ 41,774,281