

***SEATTLE'S UNION
GOSPEL MISSION***

Consolidated Financial Statements with
Independent Auditors' Report

August 31, 2008

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Independent Auditors' Report

Board of Trustees Seattle's Union Gospel Mission Seattle, Washington

Certified Public
Accountants
and Consultants

We have audited the accompanying consolidated statement of financial position of Seattle's Union Gospel Mission (the Organization) as of August 31, 2008, and the related consolidated statements of activities and changes in net assets, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Organization's 2007 audited financial statements and, in our report dated October 31, 2007, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of August 31, 2008, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.



Certified Public Accountants
October 27, 2008

SEATTLE'S UNION GOSPEL MISSION

Consolidated Statement of Financial Position

August 31, 2008

(With Comparative Totals for 2007)

	<u>2008</u>	<u>2007</u>
Assets		
Current Assets:		
Cash and cash equivalents	\$ 3,163,522	\$ 2,387,389
Cash and cash equivalents restricted for construction	16,026,814	
Inventory	545,393	530,630
Prepaid expenses and other current assets	<u>167,871</u>	<u>177,571</u>
Total Current Assets	19,903,600	3,095,590
Cash and cash equivalents restricted for reserves	1,038,804	
Long-term pledges and estates receivable, net	1,181,920	423,255
Long-term note receivable	8,500,000	
Investments	6,279,506	14,281,958
Land, buildings and equipment, net	22,777,415	14,997,479
Capitalized financing costs, net	<u>1,122,744</u>	
Total Assets	<u>\$ 60,803,989</u>	<u>\$ 32,798,282</u>
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	\$ 211,756	\$ 198,263
Accounts payable on construction	2,247,923	
Accrued expenses	579,957	239,493
Current portion of gift annuities payable	<u>74,354</u>	<u>90,704</u>
Total Current Liabilities	3,113,990	528,460
Gift annuities payable, net of current portion	284,770	297,836
Notes payable	<u>23,475,483</u>	
Total Liabilities	26,874,243	826,296
Net Assets:		
Unrestricted:		
Undesignated	2,250,948	2,199,740
Net balances for land, buildings, equipment, and capital projects	25,463,120	21,550,209
Board-designated endowment	<u>5,977,921</u>	<u>5,866,746</u>
Total unrestricted	33,691,989	29,616,695
Temporarily restricted	83,525	2,204,121
Permanently restricted	<u>154,232</u>	<u>151,170</u>
Total Net Assets	<u>33,929,746</u>	<u>31,971,986</u>
Total Liabilities and Net Assets	<u>\$ 60,803,989</u>	<u>\$ 32,798,282</u>

The accompanying notes are an integral part of the financial statements

SEATTLE'S UNION GOSPEL MISSION

**Consolidated Statement of Activities and Changes in Net Assets
For the Year Ended August 31, 2008
(With Comparative Totals for 2007)**

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total 2008</i>	<i>Total 2007</i>
Operating					
Support and Revenue:					
Contributions:					
Individuals	\$ 9,443,956	\$ 2,872	\$ -	\$ 9,446,828	\$ 8,971,072
Churches	151,325			151,325	170,821
Companies	684,455	2,500		686,955	597,648
Foundations	510,324	132,115		642,439	533,954
Organizations	239,176	4,150		243,326	301,464
Estates	326,049			326,049	239,549
Donated material and services	2,752,410			2,752,410	2,198,420
Net assets released from restrictions	148,087	(148,087)			
	<u>14,255,782</u>	<u>(6,450)</u>		<u>14,249,332</u>	<u>13,012,928</u>
Retail store sales	572,939			572,939	517,840
Rent	228,125			228,125	210,996
Program fees and other income	154,022			154,022	93,823
Change in value of split interest agreements	(33,177)			(33,177)	(88,245)
Investment return	942,037			942,037	943,649
	<u>16,119,728</u>	<u>(6,450)</u>		<u>16,113,278</u>	<u>14,690,991</u>
Expenses:					
Program services	13,107,000			13,107,000	11,244,836
Management and general	1,198,927			1,198,927	918,679
Fundraising	2,177,194			2,177,194	1,873,719
	<u>16,483,121</u>			<u>16,483,121</u>	<u>14,037,234</u>
Change in Net Assets - Operating	(363,393)	(6,450)		(369,843)	653,757
Non-operating					
Contributions from estates designated for long-term purposes	880,222			880,222	702,499
Endowment contributions			3,062	3,062	1,977
Capital campaign contributions		1,702,165		1,702,165	1,571,897
Capital campaign fundraising expenses	(256,913)			(256,913)	(102,962)
Loss on disposal of fixed assets	(933)			(933)	(9,777)
Net assets released from restrictions	3,816,311	(3,816,311)			
	<u>4,438,687</u>	<u>(2,114,146)</u>	<u>3,062</u>	<u>2,327,603</u>	<u>2,163,634</u>
Change in Net Assets - Non-operating	4,438,687	(2,114,146)	3,062	2,327,603	2,163,634
Total Change in Net Assets	4,075,294	(2,120,596)	3,062	1,957,760	2,817,391
Net Assets:					
Beginning of year	29,616,695	2,204,121	151,170	31,971,986	29,154,595
End of Year	\$ 33,691,989	\$ 83,525	\$ 154,232	\$ 33,929,746	\$ 31,971,986

The accompanying notes are an integral part of the financial statements

SEATTLE'S UNION GOSPEL MISSION

**Consolidated Statement of Functional Expenses
For the Year Ended August 31, 2008
(With Comparative Totals for 2007)**

	<i>Program Services</i>	<i>Management and General</i>	<i>Operating Fundraising</i>	<i>Capital Campaign Fundraising</i>	<i>Total 2008</i>	<i>Total 2007</i>
Salaries	\$ 4,122,962	\$ 592,699	\$ 477,153	\$ 8,552	\$ 5,201,366	\$ 4,838,502
Payroll taxes	288,818	41,373	35,935	654	366,780	340,023
Employee benefits	1,155,654	105,547	83,115		1,344,316	1,209,575
Total Payroll Expenses	5,567,434	739,619	596,203	9,206	6,912,462	6,388,100
In-kind gifts used	1,858,155	101,029	1,189		1,960,373	1,422,651
Marketing, design and data services	355,633		755,719		1,111,352	850,512
Interest expense	804,928	33,539			838,467	
Depreciation	647,231	40,329	6,056		693,616	706,248
In-kind gifts sold or given to clients	692,067				692,067	617,963
Production and printing services	194,181		421,527		615,708	611,693
Utilities	440,821	9,708	2,297		452,826	452,789
Program and religious material	418,370	803	88		419,261	373,500
Rent	392,169	1,170	468		393,807	376,643
Shipping and mailing costs	102,090		216,941		319,031	339,778
Other expenses	149,721	77,706		89,603	317,030	340,582
Professional services	40,659	76,944	6,338	156,774	280,715	138,790
Maintenance and repair	228,062	16,654	10,669		255,385	260,268
Insurance	219,365	7,559	4,319	120	231,363	262,899
Auto and truck expenses	169,401	14,314	4,599		188,314	147,021
Advertising costs	53,335		113,337		166,672	163,739
Staff training and education	129,051	15,226	9,371	6	153,654	145,132
Office supplies	104,250	15,575	8,052	48	127,925	89,699
Food cost	117,930	195			118,125	132,681
Telephone	93,735	9,682	7,368	280	111,065	108,432
Amortization	105,155	4,381			109,536	
Household expenses	100,921	632	81		101,634	95,999
Industrial insurance	62,906	6,668	1,993	90	71,657	17,630
Travel and conventions	50,945	9,973	6,744		67,662	68,872
Postage	8,485	17,221	3,835	786	30,327	28,575
Total Expenses	\$ 13,107,000	\$ 1,198,927	\$ 2,177,194	\$ 256,913	\$ 16,740,034	\$ 14,140,196

The accompanying notes are an integral part of the financial statements

SEATTLE'S UNION GOSPEL MISSION

**Consolidated Statement of Cash Flows
For the Year Ended August 31, 2008
(With Comparative Totals for 2007)**

	2008	2007
Cash Flows from Operating Activities:		
Change in net assets	\$ 1,957,760	\$ 2,817,391
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	693,616	706,248
Unrealized and realized losses (gains) on investments	274,829	(292,460)
Change in value of gift annuity agreements	(29,416)	136,175
Losses (Gains) on sales of land, building, and equipment	933	9,777
In-kind donations of property and equipment	-	(76,395)
Contributions restricted by donors for capital campaign or endowment	(1,705,227)	(1,573,874)
(Increase) Decrease in operating assets:		
Inventory	(14,763)	(3,126)
Prepaid expenses and other assets	(330,800)	18,771
Increase (Decrease) in operating liabilities:		
Accounts payable and accrued expenses	353,957	(7,881)
Net Cash Provided by Operating Activities	1,200,889	1,734,626
Cash Flows from Investing Activities:		
Increase in cash restricted for reserves and construction	(17,065,618)	
Purchases of land, building and equipment	(6,228,862)	(951,282)
Proceeds from sales of land, building, and equipment	2,300	3,200
Issuance of note receivable	(8,500,000)	
Purchases of investments	(1,002,899)	(7,496,069)
Proceeds from sales of investments	8,730,522	7,320,385
Net Cash Used by Investing Activities	(24,064,557)	(1,123,766)
Cash Flows from Financing Activities:		
Proceeds from contributions restricted by donors for capital campaign or endowment	1,287,062	1,648,745
Proceeds from long-term debt	23,475,483	
Payments of financing costs	(1,122,744)	
Net Cash Provided by Financing Activities	23,639,801	1,648,745
Net Change in Cash and Cash Equivalents	776,133	2,259,605
Cash and Cash Equivalents		
Beginning of year	2,387,389	127,784
End of Year	\$ 3,163,522	\$ 2,387,389
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for interest, net of \$86,362 of interest capitalized with construction costs	\$ 726,476	\$ -

The accompanying notes are an integral part of the financial statements

SEATTLE'S UNION GOSPEL MISSION

Notes to Consolidated Financial Statements For the Year Ended August 31, 2008

Note 1 - Organization

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 and assistance for men, women and children, men's recovery program, day and resident camping and youth programs, counseling and jail ministry, a low income cafeteria and outreach programs to low income families and elderly.

The Mission is a member of the Evangelical Council for Financial Accountability. 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 a member of the Association of Gospel Rescue Missions.

Note 2 - Significant Accounting Policies

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

UGM Landowner is a separate non-profit 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.

Basis of 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.

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.

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.

SEATTLE'S UNION GOSPEL MISSION

**Notes to Consolidated Financial Statements
For the Year Ended August 31, 2008**

Note 2 - Continued

Cash and Cash Equivalents - For the purpose of the statement of cash flows, the Organization considers all highly liquid debt instruments purchased with maturities of three months or less, except for those held in its investment portfolios, to be cash and cash equivalents. Management anticipates no material effect to the Organization's financial position as a result of cash held in a bank in excess of the available federal deposit insurance.

Restricted Cash and Cash Equivalents - The Organization's loan agreements require the Organization to maintain restricted reserves for loan servicing and asset management fees.

Receivables - Trade accounts, pledges, notes and estates receivable are stated at the amount management expects to collect from outstanding balances. 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 trade accounts receivable. Changes in the valuation allowance have not been material to the financial statements.

Inventory - Inventory consists of donated goods, office supplies, and goods purchased for retail resale. 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 for office supplies and goods purchased for retail resale.

Investments - Investments are carried at market value. Realized and unrealized gains and losses are reflected in the statement of activities.

Property and Equipment - Property and equipment are recorded at cost or, if donated, at the approximate 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 furnishings and equipment on the straight-line basis over four to ten years. Depreciation has been provided for buildings on the straight-line basis over lives of 31 to 50 years.

The Organization reviews its investment in real estate for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to the future net undiscounted cash flow expected to be generated by the rental property including any estimated proceeds from the eventual disposition of the real estate. If the real estate is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the real estate exceeds the fair value of such property. No impairment losses were recognized in 2008 or 2007.

Capitalized Financing Costs - Capitalized financing costs are being amortized using the straight-line method over the terms of the respective loans. Accumulated amortization on capitalized financing costs as of August 31, 2008 and 2007 was \$109,536 and \$0, respectively.

SEATTLE'S UNION GOSPEL MISSION

**Notes to Consolidated Financial Statements
For the Year Ended August 31, 2008**

Note 2 - Continued

Donated Goods and Services - Donations of goods, including property and equipment, are recorded as support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Donated services are recognized if the services received (i) create or enhance non-financial assets or (ii) 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 recorded in program expenses totaled \$301,740 and \$312,570 for 2008 and 2007, respectively. Donated construction services capitalized as assets totaled \$0 and \$76,395 in 2008 and 2007, respectively.

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. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Operating and Non-operating Activities - All activities are considered operating except for revenues, expenses, gains, and losses related to endowments, the capital campaign, property sales, and contributions from estates designated for long-term purposes.

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. 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.

Federal Income Tax - The Mission has 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. UGM Landowner has applied for tax-exempt status with the Internal Revenue Service.

Functional Allocation of Expenses - The costs of providing the various programs and other activities have been summarized on a functional basis in the combined statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles 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.

Reclassifications - Certain reclassifications were made to the August 1, 2007 financial statements to conform to the current year presentation. The reclassifications had no effect on total assets, total liabilities, total net assets, or change in net assets.

SEATTLE'S UNION GOSPEL MISSION

**Notes to Consolidated Financial Statements
For the Year Ended August 31, 2008**

Note 2 - Continued

Comparative Totals - 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 financial statements for the year ended August 31, 2007, from which the summarized information was derived.

Note 3 - Pledges and Estates Receivable

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

	<u>2008</u>	<u>2007</u>
Due to be collected:		
In less than one year	\$ 1,125,846	\$ 338,070
One to five years	<u>106,853</u>	<u>127,444</u>
	1,232,699	465,514
Less discount to net present value (5%)	(6,879)	(7,259)
Less allowance for doubtful pledges	<u>(43,900)</u>	<u>(35,000)</u>
Total Pledges and Estates Receivable, Net	<u>\$ 1,181,920</u>	<u>\$ 423,255</u>

The above total of pledges due in less than one year are comprised entirely of capital campaign and endowment pledges and estates receivable. These pledges are reported as noncurrent on the statement of financial position as they have been restricted by donors or designated by the Organization's Board for investment in property and equipment or endowment funds.

Note 4 - Investments

Investments were composed of the following at August 31:

	<u>2008</u>	<u>2007</u>
Cash and cash equivalents	\$ 1,009,961	\$ 4,855,917
Certificates of deposit	97,546	3,854,707
Government bonds	2,214,605	2,276,948
Mutual funds - fixed income	216,565	293,869
Mutual funds - equities	228,431	370,878
Equities	<u>2,512,398</u>	<u>2,629,639</u>
Total Investments	<u>\$ 6,279,506</u>	<u>\$ 14,281,958</u>

SEATTLE'S UNION GOSPEL MISSION

**Notes to Consolidated Financial Statements
For the Year Ended August 31, 2008**

Note 4 - Continued

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

	<u>2008</u>	<u>2007</u>
Dividends and interest	\$ 358,066	\$ 621,135
Unrealized and realized gains (losses)	(274,829)	292,460
Investment fees	<u>(48,329)</u>	<u>(40,798)</u>
Net return on investments	34,908	872,797
Interest earned on cash accounts and notes receivable	<u>907,129</u>	<u>70,852</u>
Investment Return	<u>\$ 942,037</u>	<u>\$ 943,649</u>

Note 5 - Property and Equipment

A summary of property and equipment is as follows:

	<u>2008</u>	<u>2007</u>
Land	\$ 2,219,466	\$ 2,219,466
Buildings and facilities	15,511,782	15,425,217
Equipment and vehicles	5,141,934	4,939,159
Leasehold Improvements	175,200	175,200
Construction in progress	<u>8,685,664</u>	<u>539,186</u>
	31,734,046	23,298,228
Less accumulated depreciation	<u>(8,956,631)</u>	<u>(8,300,749)</u>
Total Property and Equipment	<u>\$ 22,777,415</u>	<u>\$ 14,997,479</u>

SEATTLE'S UNION GOSPEL MISSION

**Notes to Consolidated Financial Statements
For the Year Ended August 31, 2008**

Note 6 - Long-Term Debt

	<u>2008</u>	<u>2007</u>
New Market Tax Credit Financing (Hope Place):		
Note payable to Consortium America XII LLC; debt assumed December 20, 2007; bearing interest at 5.54%; interest only payments due monthly beginning February 10, 2008, until maturity in June 2015; note secured by a Deed of Trust and assignment of leases and rents on the Hope Place project; and security agreement; loan and regulatory agreement restrict the use of the property to those allowed as a qualified active low-income community business for the term of the loan.	\$ 10,602,814	\$ -
Note payable to Consortium America XII LLC; debt assumed December 20, 2007; bearing interest at 5.54%; interest only payments due monthly beginning February 10, 2008, until December 2017; principal payments of \$5,985 due monthly starting January 2018 until note matures in December 2037; note secured by a Deed of Trust and assignment of leases and rents on the Hope Place project; and security agreement; loan and regulatory agreement restrict the use of the property to those allowed as a qualified active low-income community business for the term of the loan.	2,872,669	
Note payable to ESIC New Markets Partners XXVII LP; debt assumed December 20, 2007; bearing interest at 5.54%; interest only payments due monthly beginning February 10, 2008, until maturity June 2015; note secured by a Deed of Trust and assignment of leases and rents on the Hope Place project; and security agreement; loan and regulatory agreement restrict the use of the property to those allowed as a qualified active low-income community business for the term of the loan.	7,303,029	
Note payable to ESIC New Markets Partners XXVII LP; debt assumed December 20, 2007; bearing interest at 5.54%; interest only payments due monthly beginning February 10, 2008, until December 2017; principle payments of \$5,619 due monthly starting January 2018 until note matures in December 2037; note secured by a Deed of Trust and assignment of leases and rents on the Hope Place project; and security agreement; loan and regulatory agreement restrict the use of the property to those allowed as a qualified active low-income community business for the term of the loan.	<u>2,696,971</u>	
	<u>\$ 23,475,483</u>	<u>\$ -</u>

Future principal maturities of long-term debt are payable beginning in June 2015. There are no principal payments due during fiscal year 2009 through 2014.

SEATTLE'S UNION GOSPEL MISSION

Notes to Consolidated Financial Statements For the Year Ended August 31, 2008

Note 6 - Continued

Interest expense totaled \$924,829 for the year ended December 31, 2008, which included \$86,362 of interest which was capitalized related to the construction of the Hope Place Project.

New Market Tax Credit Financing - In December 2007, the Organization entered into a New Markets Tax Credit transaction to help finance the construction of its new Hope Place Project.

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 committed to lend \$17,905,844 to Consortium America Investment Fund XII LLC, the QEI. \$8,500,000 was borrowed at closing on December 20, 2007 while the remaining \$9,405,844 is to be borrowed later to pay off senior loan from Consortium to US Bank. The senior loan is due in June 2015. The promissory note has interest accruing at 7.26% per annum, interest payments due monthly beginning February 10, 2008. The note matures on December 20, 2032, at which time any outstanding principal and interest are due.

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 XXVIII LP (the CDEs for the project).

Neither the Mission nor UGM Landowner controls or has an economic interest in the assets of either QEI or the CDEs. The QEI is controlled and partially financed by US Bank and the QEI controls and funds the CDE.

To earn the tax credit the QEI must remain invested in the CDE for a seven-year period. The Mission and US Bank have entered into a put/call option agreement to take place at the end of the seven-year period. Under the agreement, US Bank can exercise a put option to sell all interest in the QEI for \$1,000 to the Mission. If US Bank does not exercise the put option within 90 days of the end of the seven-year period, the Mission can exercise a call option to purchase the interest of the QEI at an appraised fair market value.

Note 7 - Gift Annuities Payable

The Organization administers gift annuities for which it is obligated to make periodic distributions to designated beneficiaries. The contributed assets are recorded at the market value on the date of contribution as general assets of the Organization. The present value of the payments due the beneficiaries is recorded as a liability and totaled \$359,124 and \$388,540 at August 31, 2008 and 2007, 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. Resulting actuarial gain or loss is recorded as a change in value of split interest agreements depending on the eventual use of the residual. The change in value for the years ending August 31, 2008 and 2007, were losses of \$33,177 and \$88,245, respectively.

SEATTLE'S UNION GOSPEL MISSION

**Notes to Consolidated Financial Statements
For the Year Ended August 31, 2008**

Note 8 - Commitments

Store and Warehouse Leases - The Organization has entered into an agreement to lease space for the Meeker Street Emporium retail store in Kent, Washington for a five year term that ends August 31, 2009. The base monthly rental for the lease term is \$21,600 per month and will be adjusted annually by increases in the consumer price index. In addition, the Organization is obligated to pay its pro rata share of the building operating expenses, taxes and insurance.

The Organization has entered into an agreement to lease warehouse space in the Northwest Corporate Park in Kent, Washington with a lease term ending April 30, 2011. The base monthly rental for fiscal 2008 through April was \$6,384 and increased to \$7,680 for May through August. The lease has annual stepped increases of 2.5%. In addition, the Organization is obligated to pay its pro rata share of the building operating expenses, taxes and insurance.

The Organization has two separate operating lease agreements for an individual copier as well as a maintenance agreement on some of the Organization's other equipment. The terms of the leases extend through 2012 and have a combined monthly payment of \$1,057.

Future minimum rentals to be paid as of August 31 under non-cancelable operating leases are as follows:

<i>Years Ending August 31,</i>	
2009	\$ 451,953
2010	133,247
2011	49,639
2012	<u>5,194</u>
	<u>\$ 640,033</u>

Other Operating Leases - The Organization has entered into lease agreements with business and charitable organizations to lease some of the Organization's excess building space to those organizations. The leases have expiration dates ranging from October 2008 to October 2009. Future minimum rentals as of August 31 under non-cancelable operating leases are as follows:

Future minimum rentals to be received as of August 31 under non-cancelable operating leases are as follows:

<i>Years Ending August 31,</i>	
2009	\$ 69,945
2010	39,930
2011	<u>16,500</u>
	<u>\$ 126,375</u>

SEATTLE'S UNION GOSPEL MISSION

**Notes to Consolidated Financial Statements
For the Year Ended August 31, 2008**

Note 8 - Continued

Retirement Plan - The Organization has a defined contribution retirement plan available for all regular full-time employees. Any regular, full-time employee as defined in the Organization's employee manual may sign up for and contribute to the plan. The Organization will contribute the equivalent of 1% of an eligible employee's monthly gross wages to the employee's retirement account, regardless of employee contributions. In addition, the Organization will contribute 50% for each dollar an employee contributes to a maximum of \$35 per month. For the years ended August 31, 2008 and 2007, the total retirement plan expense was \$65,451 and \$59,984, respectively.

Construction Contract - The Organization has a contract with Turner Construction (Turner) to build the Hope Place Project. Construction began in March 2008 and the building is anticipated to be completed by April 2009. The total contract, including change orders, with Turner at August 31, 2008 was for \$21.9 million. As of August 31, 2008 the Organization has incurred costs of \$9.7 million.

Women's and Children's Shelter - The Organization signed a purchase and sale agreement to sell its existing Women's and Children's Shelter located on King Street in Seattle for \$4.6 million. The buyer has the opportunity to extend the closing date up to 2 years from the agreement date which was May 20, 2008. Net book value of the property reported on the statement of financial position was \$1,373,692 at August 31, 2008. The Organization has received \$200,000 in earnest money from the buyer. The earnest money is nonrefundable unless the Organization terminates the agreement. The agreement specifies the option for the Organization to lease back the facility for up to 18 months from the date of closing for \$25,000 a month and the lease must be executed prior to closing or the option expires.

Note 9 - Temporarily Restricted Net Assets

Temporarily restricted net assets were available for the following purposes at August 31:

	<u>2008</u>	<u>2007</u>
Capital and property improvements	\$ 83,525	\$ 131,363
Hope Place Project capital campaign		<u>2,072,758</u>
	<u>\$ 83,525</u>	<u>\$ 2,204,121</u>

SEATTLE'S UNION GOSPEL MISSION

**Notes to Consolidated Financial Statements
For the Year Ended August 31, 2008**

Note 10 - Endowment Funds and Permanently Restricted Net Assets

The Board of Trustees has adopted an endowment program to establish one or more funds to help ensure the future vitality of the Organization. The principal of the funds will be kept intact and the income will be available to meet the objectives of the specific endowment.

Endowment funds and permanently restricted net assets consisted of the following at August 31:

	<u>2008</u>	<u>2007</u>
Francis O. Peterson Operations Endowment	\$ 6,004,996	\$ 5,893,821
Less: portion of endowment that is board-designated	<u>(5,977,921)</u>	<u>(5,866,746)</u>
Permanently restricted portion of Peterson Endowment	27,075	27,075
Carlos A. Holder Endowment for Women and Family Services	61,182	58,120
William T. Gillespie Endowment	29,419	29,419
Wabash Presbyterian Church Endowment	21,862	21,862
Contractors Specialties Operations Endowment	<u>14,694</u>	<u>14,694</u>
Total Permanently Restricted Net Assets	<u>\$ 154,232</u>	<u>\$ 151,170</u>

Francis O. Peterson Operations Endowment - The Board has established a fund in honor of the Organization's founder Francis O. Peterson (the "Peterson Endowment"). The principal of the Peterson Endowment is to be kept intact and the income is to be used to assist in meeting the ongoing operational expenses of the Organization. On October 18, 1993 (and amended effective September 1, 1999), the Board adopted a policy pertaining to unrestricted estate gifts that allocates to the Peterson Endowment the majority of the first \$100,000 of such gifts and, for amounts over \$100,000, gives the Board discretion to apportion such sums to Peterson or to any other fund, program or need of the Organization.

Carlos A. Holder Endowment for Women and Family Services - The Organization has established in perpetuity the Carlos A. Holder Endowment for Women and Family Services to support the operational expenses of the Organization and to further its charitable purposes.

William T. Gillespie Endowment - The Organization has established in perpetuity the William T. Gillespie Endowment to support the feeding of the hungry at the Organization.

Wabash Presbyterian Church Endowment - The Organization has established in perpetuity the Wabash Presbyterian Church Endowment to support the operational expenses of the Organization and to further its charitable purposes.

Contractors Specialties Operations Endowment - The Organization has established in perpetuity the Contractors Specialties Operations Endowment to support the operational expenses of the Organization and to further its charitable purposes.

SEATTLE'S UNION GOSPEL MISSION

***Notes to Consolidated Financial Statements
For the Year Ended August 31, 2008***

Note 11 - 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, 2008 and 2007, were \$3,148,648 and \$2,746,917, respectively, of which \$997,115 and \$903,082 were allocated to program and \$2,151,533 and \$1,843,835 were allocated to fundraising.