

***SEATTLE'S UNION GOSPEL
MISSION AND SUBSIDIARY***

Consolidated Financial Statements with
Independent Auditors' Report

August 31, 2009

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Independent Auditors' Report***Board of Trustees
Seattle's Union Gospel Mission and Subsidiary
Seattle, Washington***Certified Public
Accountants
and Consultants

We have audited the accompanying consolidated statement of financial position of Seattle's Union Gospel Mission and Subsidiary (collectively, the Organization) as of August 31, 2009, 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 2008 audited consolidated financial statements and, in our report dated October 27, 2008, 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of August 31, 2009, 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 29, 2009

SEATTLE'S UNION GOSPEL MISSION AND SUBSIDIARY

Consolidated Statement of Financial Position

August 31, 2009

(With Comparative Totals for 2008)

	<u>2009</u>	<u>2008</u>
<i>Assets</i>		
Current Assets:		
Cash and cash equivalents	\$ 1,099,361	\$ 3,163,522
Cash and cash equivalents restricted for construction	13,606	16,026,814
Inventory	292,327	545,393
Prepaid expenses and other current assets	<u>366,437</u>	<u>167,871</u>
Total Current Assets	1,771,731	19,903,600
Cash and cash equivalents restricted for reserves	966,663	1,038,804
Long-term pledges and estates receivable, net	576,336	1,181,920
Notes receivable	14,749,588	8,500,000
Investments	6,737,185	6,279,506
Land, buildings, and equipment, net	36,922,750	22,777,415
Capitalized financing costs, net	<u>945,148</u>	<u>1,122,744</u>
Total Assets	<u>\$ 62,669,401</u>	<u>\$ 60,803,989</u>
<i>Liabilities and Net Assets</i>		
Current Liabilities:		
Accounts payable	\$ 278,830	\$ 211,756
Construction payables	12,950	2,247,923
Accrued expenses	276,527	579,957
Current portion of gift annuities payable	66,328	74,354
Current portion of notes payable	<u>17,472</u>	<u> </u>
Total Current Liabilities	652,107	3,113,990
Gift annuities payable, net of current portion	280,667	284,770
Notes payable, net of current portion	<u>24,819,208</u>	<u>23,475,483</u>
Total Liabilities	25,751,982	26,874,243
Net Assets:		
Unrestricted:		
Undesignated	1,499,875	2,250,948
Net balances for land, buildings, equipment, and capital projects	29,091,461	25,463,120
Board-designated endowment	<u>6,096,181</u>	<u>5,977,921</u>
Total Unrestricted	36,687,517	33,691,989
Temporarily restricted	75,420	83,525
Permanently restricted	<u>154,482</u>	<u>154,232</u>
Total Net Assets	<u>36,917,419</u>	<u>33,929,746</u>
Total Liabilities and Net Assets	<u>\$ 62,669,401</u>	<u>\$ 60,803,989</u>

The accompanying notes are an integral part of the 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, 2009
(With Comparative Totals for 2008)**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2009</u>	<u>Total 2008</u>
Operating					
Support and Revenue:					
Contributions:					
Individuals	\$ 9,274,018	\$ 6,045	\$ -	\$ 9,280,063	\$ 9,446,828
Churches	139,723			139,723	151,325
Companies	571,362	26,758		598,120	686,955
Foundations	418,216	53,160		471,376	642,439
Organizations	338,923			338,923	243,326
Estates	384,304			384,304	326,049
Donated material and services	2,941,062			2,941,062	2,752,410
Net assets released from restrictions	105,854	(105,854)			
Total contributions	14,173,462	(19,891)		14,153,571	14,249,332
Retail store sales	513,972			513,972	572,939
Rent	184,537			184,537	228,125
Program fees and other income	70,176			70,176	154,022
Change in value of split interest agreements	(62,244)			(62,244)	(33,177)
Investment return	634,719	(1,409)		633,310	942,037
Total Support and Revenue	15,514,622	(21,300)		15,493,322	16,113,278
Expenses:					
Program services	13,722,585			13,722,585	13,107,000
Management and general	1,290,391			1,290,391	1,198,927
Fundraising	2,121,497			2,121,497	2,177,194
Total Expenses	17,134,473			17,134,473	16,483,121
Change in Net Assets - Operating	(1,619,851)	(21,300)		(1,641,151)	(369,843)
Non-Operating					
Contributions from estates designated for long-term purposes	548,974			548,974	880,222
Endowment contributions			250	250	3,062
Capital campaign contributions		1,456,164		1,456,164	1,702,165
Capital campaign fundraising expenses	(432,986)			(432,986)	(256,913)
Gain on sale of fixed assets	3,056,422			3,056,422	(933)
Reclassification of endowment net assets (Note 11)	(13,195)	13,195			
Net assets released from restrictions	1,456,164	(1,456,164)			
Change in Net Assets - Non-operating	4,615,379	13,195	250	4,628,824	2,327,603
Total Change in Net Assets	2,995,528	(8,105)	250	2,987,673	1,957,760
Net Assets:					
Beginning of year	33,691,989	83,525	154,232	33,929,746	31,971,986
End of Year	\$ 36,687,517	\$ 75,420	\$ 154,482	\$ 36,917,419	\$ 33,929,746

The accompanying notes are an integral part of the consolidated financial statements.

SEATTLE'S UNION GOSPEL MISSION AND SUBSIDIARY

**Consolidated Statement of Functional Expenses
For the Year Ended August 31, 2009
(With Comparative Totals for 2008)**

	<i>Program Services</i>	<i>Management and General</i>	<i>Operating Fundraising</i>	<i>Capital Campaign Fundraising</i>	<i>Total 2009</i>	<i>Total 2008</i>
Salaries	\$ 4,136,575	\$ 596,163	\$ 446,219	\$ 22,399	\$ 5,201,356	\$ 5,201,366
Payroll taxes	285,937	41,623	33,318	1,714	362,592	366,780
Employee benefits	1,164,447	112,834	80,824		1,358,105	1,344,316
Total personnel costs	5,586,959	750,620	560,361	24,113	6,922,053	6,912,462
In-kind gifts used	2,415,174	110,976	735		2,526,885	1,960,373
Depreciation	959,543	37,171	7,461		1,004,175	693,616
Marketing, design, and data services	341,822		659,394		1,001,216	1,111,352
Production and printing services	218,530		434,602		653,132	615,708
In-kind gifts sold or given to clients	607,939				607,939	692,067
Rent	572,602	1,432	573		574,607	393,807
Interest expense	530,621	40,221			570,842	838,467
Other expenses	189,219	122,110		177,365	488,694	317,030
Utilities	429,003	9,105	3,405	27,173	468,686	452,826
Shipping and mailing costs	151,756		294,586		446,342	319,031
Program and religious material	345,946	554	40		346,540	419,261
Professional services	24,799	44,087	1,322	201,031	271,239	280,715
Maintenance and repair	215,447	19,208	9,821		244,476	255,385
Insurance	230,137	6,728	4,011		240,876	231,363
Amortization	176,509	7,355			183,864	109,536
Advertising costs	59,543		115,583		175,126	166,672
Auto and truck expenses	134,916	7,625	3,527		146,068	188,314
Food cost	113,715	109			113,824	118,125
Household expenses	105,428	443	70		105,941	101,634
Telephone	78,148	8,152	5,363	1,311	92,974	111,065
Staff training and education	71,623	9,935	5,920	428	87,906	153,654
Office supplies	61,072	9,974	7,911	14	78,971	127,925
New market tax credit program fees		76,951			76,951	
Industrial insurance	59,733	2,745	2,096	243	64,817	71,657
Travel and conventions	34,900	7,288	1,156	1,011	44,355	67,662
Postage	7,501	17,602	3,560	297	28,960	30,327
Total Expenses	\$ 13,722,585	\$ 1,290,391	\$ 2,121,497	\$ 432,986	\$ 17,567,459	\$ 16,740,034

The accompanying notes are an integral part of the consolidated financial statements.

SEATTLE'S UNION GOSPEL MISSION AND SUBSIDIARY

Consolidated Statement of Cash Flows

For the Year Ended August 31, 2009

(With Comparative Totals for 2008)

	<u>2009</u>	<u>2008</u>
Cash Flows from Operating Activities:		
Change in net assets	\$ 2,987,673	\$ 1,957,760
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,188,039	693,616
Unrealized and realized losses on investments	465,816	274,829
Change in value of gift annuity agreements	(12,129)	(29,416)
(Gain) Loss on sales of land, building, and equipment	(3,056,422)	933
Contributions restricted by donors for capital campaign or endowment	(1,456,414)	(1,705,227)
Decrease (Increase) in operating assets:		
Inventory	253,066	(14,763)
Prepaid expenses and other assets	60,934	(330,800)
(Decrease) Increase in operating liabilities:		
Accounts payable and accrued expenses	(236,356)	353,957
Net Cash Provided by Operating Activities	194,207	1,200,889
Cash Flows from Investing Activities:		
Decrease (Increase) in cash restricted for reserves and construction	16,085,349	(17,065,618)
Purchases of land, building, and equipment	(18,399,143)	(6,228,862)
Proceeds from sales of land, building, and equipment	844,573	2,300
Issuance of note receivable	(2,649,588)	(8,500,000)
Purchases of investments	(2,749,742)	(1,002,899)
Proceeds from sales of investments	1,826,247	8,730,522
Net Cash Used by Investing Activities	(5,042,304)	(24,064,557)
Cash Flows from Financing Activities:		
Proceeds from contributions restricted by donors for capital campaign or endowment	1,802,498	1,287,062
Proceeds from notes payable	1,000,000	23,475,483
Payments on notes payable	(12,294)	
Payments of financing costs	(6,268)	(1,122,744)
Net Cash Provided by Financing Activities	2,783,936	23,639,801
Net Change in Cash and Cash Equivalents	(2,064,161)	776,133
Cash and Cash Equivalents:		
Beginning of year	3,163,522	2,387,389
End of Year	\$ 1,099,361	\$ 3,163,522
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for interest, net of \$765,875 (2008 - \$86,362) of interest capitalized with construction costs	\$ 692,550	\$ 726,476
Supplemental Disclosure of Non-cash Investing and Financing Activities:		
Acquisition of building improvements by issuance of note payable	\$ 373,491	\$ -
Receipt of note receivable as partial payment for sale of land and building	\$ 3,600,000	\$ -

The accompanying notes are an integral part of the consolidated financial statements.

SEATTLE'S UNION GOSPEL MISSION AND SUBSIDIARY

Notes to Consolidated Financial Statements For the Year Ended August 31, 2009

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, recovery programs, day and resident camping and 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 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 Christian Leadership Alliance.

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 AND SUBSIDIARY

***Notes to Consolidated Financial Statements
For the Year Ended August 31, 2009***

Note 2 - Continued

Fair Value Measurements - Certain balances and transactions in these financial statements are measured at fair value. To increase consistency and comparability in fair value measurements, generally accepted accounting principles uses 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). Assets and liabilities valued using Level 1 inputs are based on unadjusted quoted market prices within active markets. Assets and liabilities valued using Level 2 inputs are based primarily on quoted prices for similar assets or liabilities in active or inactive markets. Assets and liabilities using Level 3 inputs were primarily valued using management's assumptions about the assumptions market participants would utilize in pricing the asset or liability. Valuation techniques utilized to determine fair value are consistently applied.

Cash and Cash Equivalents - For the purpose of the consolidated 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, including food, 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.

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.

SEATTLE'S UNION GOSPEL MISSION AND SUBSIDIARY

***Notes to Consolidated Financial Statements
For the Year Ended August 31, 2009***

Note 2 - Continued

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 2009 or 2008.

Capitalized Financing Costs - Capitalized financing costs are being amortized using the straight-line method over the terms of the respective loans. Accumulated amortization of capitalized financing costs as of August 31, 2009 and 2008 was \$293,400 and \$109,536, respectively.

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 \$393,309 and \$301,740 for 2009 and 2008, 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 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 combined statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

SEATTLE'S UNION GOSPEL MISSION AND SUBSIDIARY

**Notes to Consolidated Financial Statements
For the Year Ended August 31, 2009**

Note 2 - Continued

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.

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, 2008, from which the summarized information was derived.

Subsequent Events - The Organization has evaluated subsequent events through October 29, 2009, the date which the financial statements were available to be issued.

Note 3 - Pledges and Estates Receivable

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

	<u>2009</u>	<u>2008</u>
Due to be collected:		
In less than one year	\$ 663,477	\$ 1,125,846
One to five years	<u>311,566</u>	<u>106,853</u>
	975,043	1,232,699
Less discount to net present value (5%)	(19,807)	(6,879)
Less allowance for doubtful pledges	<u>(378,900)</u>	<u>(43,000)</u>
Total Pledges and Estates Receivable, Net	<u>\$ 576,336</u>	<u>\$ 1,181,920</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 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 or endowment funds.

SEATTLE'S UNION GOSPEL MISSION AND SUBSIDIARY

**Notes to Consolidated Financial Statements
For the Year Ended August 31, 2009**

Note 4 - Investments

Investments consisted of the following at August 31:

	<u>2009</u>	<u>2008</u>
Money market funds	\$ 1,393,586	\$ 1,009,961
Certificates of deposit		97,546
Government bonds	1,626,391	2,214,605
Mutual funds - fixed income	170,407	216,565
Mutual funds - equities	599,441	228,431
Equities	<u>2,947,360</u>	<u>2,512,398</u>
Total Investments	<u>\$ 6,737,185</u>	<u>\$ 6,279,506</u>

Fair values of investments were determined using the following inputs:

	<u>Fair Value Measurements at August 31, 2009</u>			<u>Total</u>
	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>	
Money market funds	\$ 1,393,586	\$ -	\$ -	\$ 1,393,586
Government bonds		1,626,391		1,626,391
Mutual funds - fixed income	170,407			170,407
Mutual funds - equity securities	599,441			599,441
Equities	<u>2,947,360</u>			<u>2,947,360</u>
	<u>\$ 5,110,794</u>	<u>\$ 1,626,391</u>	<u>\$ -</u>	<u>\$ 6,737,185</u>

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

	<u>2009</u>	<u>2008</u>
Dividends and interest	\$ 174,749	\$ 358,066
Unrealized and realized losses	(465,814)	(274,829)
Investment fees	<u>(37,867)</u>	<u>(48,329)</u>
Net return on investments	(328,934)	34,908
Interest earned on cash accounts and notes receivable	<u>962,244</u>	<u>907,129</u>
Investment Return	<u>\$ 633,310</u>	<u>\$ 942,037</u>

SEATTLE'S UNION GOSPEL MISSION AND SUBSIDIARY

**Notes to Consolidated Financial Statements
For the Year Ended August 31, 2009**

Note 5 - Land, Buildings, and Equipment

A summary of land, buildings, and equipment is as follows:

	<u>2009</u>	<u>2008</u>
Land	\$ 2,219,466	\$ 2,219,466
Buildings and facilities	37,830,278	15,511,782
Equipment and vehicles	5,553,509	5,141,934
Leasehold improvements	26,562	175,200
Construction in progress	<u>146,830</u>	<u>8,685,664</u>
	45,776,645	31,734,046
Less accumulated depreciation	<u>(8,853,895)</u>	<u>(8,956,631)</u>
Total Property and Equipment	<u>\$36,922,750</u>	<u>\$22,777,415</u>

The Hope Place building included in construction in progress as of August 31, 2008 was completed and transferred to buildings and facilities during fiscal year 2009.

Note 6 - Notes Receivable

Notes receivable consisted of the following at August 31:

	<u>2009</u>	<u>2008</u>
Note receivable due from Consortium American Investment Fund XII, LLC with interest payments of 7.26% per annum due monthly, secured by a land and a building and maturing December 2032. The Organization is obligated to advance additional funds under this note up to a total of \$17,905,844 by June 2015 (see Note 7).	\$11,149,588	\$ 8,500,000
Interest bearing note receivable due from American Hotel Building, LLC secured by the building, to be repaid in full January 1, 2012 with monthly interest payments due at 7.2% per annum through December 2010 at which time the interest rate will be changed to 9% per annum.	<u>3,600,000</u>	<u> </u>
	<u>\$14,749,588</u>	<u>\$ 8,500,000</u>

SEATTLE'S UNION GOSPEL MISSION AND SUBSIDIARY

**Notes to Consolidated Financial Statements
For the Year Ended August 31, 2009**

Note 7 - Notes Payable

Notes payable consisted of the following at August 31:

	<u>2009</u>	<u>2008</u>
Note payable to Consortium America XII LLC; 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	\$10,602,814
Note payable to Consortium America XII LLC; 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	2,872,669
Note payable to ESIC New Markets Partners XXVII LP; 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	7,303,029
Note payable to ESIC New Markets Partners XXVII LP; bearing interest at 5.54%; interest only payments due monthly beginning February 10, 2008, until December 2017; principal 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.	2,696,971	2,696,971
Note payable to Mississippi Valley Life Insurance Company; bearing no interest; principal due at maturity on December 31, 2015, provided that the principal will be forgiven at maturity provided no default or breach has occurred; secured by a Deed of Trust.	1,000,000	

SEATTLE'S UNION GOSPEL MISSION AND SUBSIDIARY

**Notes to Consolidated Financial Statements
For the Year Ended August 31, 2009**

Note 7 - Continued

Note payable to King County; bearing interest at 5.29%; principal and interest payment of \$9,058 due quarterly starting September 30, 2008 until note matures in September 2023; no collateral requirements; used to finance sewage costs associated to the construction of Hope Place.

	<u>361,197</u>	<u> </u>
Total	24,836,680	23,475,483
Less current portion	<u>(17,472)</u>	<u> </u>
	<u>\$24,819,208</u>	<u>\$23,475,483</u>

Principal maturities are as follows:

<i>Years Ending August 31,</i>	
2010	\$ 17,472
2011	18,415
2012	19,409
2013	20,456
2014	21,560
Thereafter	<u>24,739,368</u>
	<u>\$24,836,680</u>

Interest payments totaled \$1,336,717 and \$924,829 for the years ended August 31, 2009 and 2008, which included \$765,875 and \$86,362 of interest which was capitalized related to the construction of the Hope Place Project, respectively.

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 was obligated to provide \$17,905,844 to Consortium America Investment Fund XII LLC (Consortium), the QEI via a note receivable. See Note 6 for a further description of the note receivable the outstanding balance receivable as of year-end.

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). The promissory notes call for certain covenants that the Organization must remain in compliance with. These covenants include the requirement to maintain a Fixed Charge Ratio of at least 1.15 to 1.

SEATTLE'S UNION GOSPEL MISSION AND SUBSIDIARY

**Notes to Consolidated Financial Statements
For the Year Ended August 31, 2009**

Note 7 - Continued

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 ending in December 2014. 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 8 - 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 to the beneficiaries is recorded as a liability and totaled \$346,995 and \$359,124 at August 31, 2009 and 2008, 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, 2009 and 2008, were losses of \$62,244 and \$33,177, respectively.

Note 9 - Commitments

Warehouse and Equipment Leases - 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 year 2009 through April was \$7,680 and increased to \$8,256 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>	
2010	\$ 133,247
2011	49,639
2012	<u>5,194</u>
	<u>\$ 188,080</u>

SEATTLE'S UNION GOSPEL MISSION AND SUBSIDIARY

**Notes to Consolidated Financial Statements
For the Year Ended August 31, 2009**

Note 9 - Continued

Other Operating Leases - The Organization has entered into a lease agreement with a charitable organization to lease some of the Organization's building space. The lease has an expiration date July 2011.

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

<i>Years Ending August 31,</i>	
2010	\$ 34,100
2011	<u>16,500</u>
	<u>\$ 50,600</u>

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, 2009 and 2008, the total retirement plan expense was \$58,943 and \$65,451, respectively.

Note 10 - Temporarily Restricted Net Assets

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

	<u>2009</u>	<u>2008</u>
Capital and property improvements	\$ 63,634	\$ 83,525
Endowment income (see Note 11)	<u>11,786</u>	<u> </u>
	<u>\$ 75,420</u>	<u>\$ 83,525</u>

Note 11 - 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.

SEATTLE'S UNION GOSPEL MISSION AND SUBSIDIARY

**Notes to Consolidated Financial Statements
For the Year Ended August 31, 2009**

Note 11 - Continued

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

	<u>2009</u>	<u>2008</u>
Francis O. Peterson Operations Endowment	\$ 6,123,256	\$ 6,004,996
Less: portion of endowment that is board-designated	<u>(6,096,181)</u>	<u>(5,977,921)</u>
Permanently restricted portion of Peterson Endowment	27,075	27,075
Carlos A. Holder Endowment for Women and Family Services	61,182	61,182
William T. Gillespie Endowment	29,419	29,419
Wabash Presbyterian Church Endowment	22,112	21,862
Contractors Specialties Operations Endowment	<u>14,694</u>	<u>14,694</u>
Total Permanently Restricted Net Assets	<u>\$ 154,482</u>	<u>\$ 154,232</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.

The Organization's endowments consist of 5 funds established for a variety of purposes. Its endowments include both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments (quasi-endowments). As required by GAAP, net assets associated with endowment funds, including quasi-endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

SEATTLE'S UNION GOSPEL MISSION AND SUBSIDIARY

**Notes to Consolidated Financial Statements
For the Year Ended August 31, 2009**

Note 11 - Continued

Interpretation of Relevant Law - The Board of Trustees of the Organization has interpreted the Washington State Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Any funds placed in the endowment by Board designation are classified as unrestricted net assets.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Organization
- (7) The investment policies of the Organization

Composition of Endowment Funds - As of August 31, 2009, endowment net assets consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment funds	\$ -	\$ 11,786	\$ 154,482	\$ 166,268
Board designated endowment funds	<u>6,096,181</u>	<u> </u>	<u> </u>	<u>6,096,181</u>
Endowment Net Assets	<u>\$ 6,096,181</u>	<u>\$ 11,786</u>	<u>\$ 154,482</u>	<u>\$ 6,262,449</u>

Changes to endowment net assets for the year ended August 31, 2009 were as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, August 31, 2008	\$ 5,977,921	\$ -	\$ 154,232	\$ 6,132,153
Net assets reclassified based on change in law		13,195		13,195
Endowment investment return	(295,947)	(1,409)		(297,356)
Contributions			250	250
Transfer to/from Board designated endowments	<u>414,207</u>	<u> </u>	<u> </u>	<u>414,207</u>
Endowment Net Assets, August 31, 2009	<u>\$ 6,096,181</u>	<u>\$ 11,786</u>	<u>\$ 154,482</u>	<u>\$ 6,262,449</u>

SEATTLE'S UNION GOSPEL MISSION AND SUBSIDIARY

Notes to Consolidated Financial Statements For the Year Ended August 31, 2009

Note 11 - Continued

During fiscal year 2009, Washington State adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA). As a result of this new law the unappropriated investment earnings on donor restricted endowment of \$13,195 were reclassified from unrestricted net assets to temporarily restricted net assets.

Investment and Spending Policies - The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for donor-specified periods as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that approximately match results of a blend of the S&P 500 and other indices as appropriate while assuming a moderate level of investment risk. The Organization expects its endowment funds, over time, to grow at some small rate after appropriations from the funds. Actual returns in any given year may vary. To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation, realized and unrealized, and current yield, such as interest and dividends. The Organization targets a diversified asset allocation that places an equal emphasis on equity-based investments and in fixed-income investments, with a modest 10% held in short-term liquid investments. This diversification is intended to help the Organization achieve its long-term return objectives within prudent risk constraints.

The Organization has a policy of appropriating for distribution as of each January 1st the lesser of its previous calendar year's annual investment income or 5 percent of its endowment fund's balance on the first business day of the year in which the distribution is planned. In establishing this policy, the Organization considered the long-term expected return on its endowment. Accordingly, over the long term, the Organization expects the current spending policy to allow its endowment to grow at an average of 2 to 3 percent annually after its planned payouts. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Finally, the Board and management are in process of revising and updating the investment policy to improve management of the funds and to ensure compliance with applicable current law and best practices.

Note 12 - 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, 2009 and 2008, were \$3,156,479 and \$3,148,648, respectively, of which \$1,062,585 and \$997,115 were allocated to program and \$2,093,894 and \$2,151,533 were allocated to fundraising.