

SEATTLE'S UNION GOSPEL MISSION

FINANCIAL REPORT

AUGUST 31, 2017

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Seattle's Union Gospel Mission ("the Mission"), which comprise the statement of financial position as of August 31, 2017, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the 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 financial statements referred to above present fairly, in all material respects, the financial position of Seattle's Union Gospel Mission as of August 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States.

Correction of Error

As described in Note 10 to the financial statements, two errors resulting in an understatement of temporarily restricted net assets and accounts payable, and an overstatement of unrestricted net assets and notes payable as of August 31, 2016, were discovered by management of Seattle's Union Gospel Mission during the current year. Accordingly, amounts affected by the errors have been restated in the 2016 summarized comparative information now presented. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the 2016 financial statements of Seattle's Union Gospel Mission, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 21, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Peterson Sullivan LLP

December 15, 2017

SEATTLE'S UNION GOSPEL MISSION

STATEMENT OF FINANCIAL POSITION

August 31, 2017

(With Comparative Totals for 2016)

ASSETS	2017	2016 (Restated)
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Current Assets		
Cash and cash equivalents	\$ 1,158,168	\$ 3,256,816
Grants, pledges, and estates receivable, net		2,027,934
Inventory	2,675,228	1,498,669
Prepaid expenses and other	86,698	127,373
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Total current assets	3,920,094	6,910,792
Investments	5,155,540	4,706,899
Land, Buildings, and Equipment, net	33,415,312	33,029,984
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Total assets	\$ 42,490,946	\$ 44,647,675
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LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 157,946	\$ 476,128
Accrued expenses	853,791	698,346
Current portion of gift annuities payable	14,091	19,630
Current portion of notes payable	134,315	128,872
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Total current liabilities	1,160,143	1,322,976
Gift Annuities Payable, net of current portion	51,158	68,209
Notes Payable, net of current portion	531,792	661,190
Deferred Rent Liability	90,000	90,000
	<hr/>	<hr/>
Total liabilities	1,833,093	2,142,375
Net Assets		
Unrestricted	37,469,491	39,369,637
Temporarily restricted	3,064,349	3,011,650
Permanently restricted	124,013	124,013
	<hr/>	<hr/>
Total net assets	40,657,853	42,505,300
	<hr/>	<hr/>
Total liabilities and net assets	\$ 42,490,946	\$ 44,647,675
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See Notes to Financial Statements

SEATTLE'S UNION GOSPEL MISSION

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Year Ended August 31, 2017

(With Comparative Totals for 2016)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2017	Total 2016 (Restated)
Operating					
Support and revenue					
Contributions					
Individuals	\$11,569,748	\$ -	\$ -	\$11,569,748	\$11,516,166
Churches	310,121			310,121	264,817
Companies	472,936			472,936	488,246
Foundations	1,549,822			1,549,822	1,244,430
Organizations	1,294,097			1,294,097	976,033
Estates	1,031,019	44,300		1,075,319	1,300,897
Donated goods and services	4,743,188			4,743,188	4,411,661
Catalyst event, less direct costs of \$201,425 in 2017 and \$188,752 in 2016	1,669,502			1,669,502	1,148,400
Net assets released from restrictions	22,101	(22,101)			
Total contributions	22,662,534	22,199		22,684,733	21,350,650
Rental income	102,473			102,473	85,383
Program fees	244,663			244,663	533,039
Other income	514,378			514,378	265,999
Change in value of split interest agreements	22,590			22,590	(15,635)
Investment return	506,050			506,050	262,443
Total support and revenue	24,052,688	22,199		24,074,887	22,481,879
Expenses					
Program services	20,681,668			20,681,668	19,786,302
Supporting services					
Management and general	2,079,417			2,079,417	1,877,641
Fundraising	3,191,749			3,191,749	3,143,020
Total supporting services	5,271,166			5,271,166	5,020,661
Total operating expenses	25,952,834			25,952,834	24,806,963
Change in Net Assets - operating	(1,900,146)	22,199		(1,877,947)	(2,325,084)
Nonoperating					
Capital Campaign		30,500		30,500	
Grant restricted for capital project					2,000,000
Insurance settlement					3,100,000
Change in Net Assets - nonoperating		30,500		30,500	5,100,000
Total Change in Net Assets	(1,900,146)	52,699		(1,847,447)	2,774,916
Net Assets, beginning of year	39,369,637	3,011,650	124,013	42,505,300	39,730,384
Net Assets, end of year	<u>\$37,469,491</u>	<u>\$ 3,064,349</u>	<u>\$ 124,013</u>	<u>\$40,657,853</u>	<u>\$42,505,300</u>

See Notes to Financial Statements

SEATTLE'S UNION GOSPEL MISSION

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended August 31, 2017
(With Comparative Totals for 2016)

	Program Services	Management and General	Fundraising	Total 2017	Total 2016 (Restated)
Salaries	\$ 8,277,310	\$ 715,150	\$ 872,560	\$ 9,865,020	\$ 8,936,913
Employee benefits	1,794,588	289,721	114,561	2,198,870	1,919,304
Payroll taxes	530,617	36,092	53,829	620,538	623,706
Total personnel costs	10,602,515	1,040,963	1,040,950	12,684,428	11,479,923
In-kind gifts used	3,547,725	11,116	7,865	3,566,706	4,107,234
Depreciation and amortization	1,139,816	352,528		1,492,344	1,475,822
Professional services	526,506	111,624	607,161	1,245,291	646,078
Program and religious material	785,082	1,094	71,852	858,028	640,966
Marketing, design, and data services	270,051	10,034	551,108	831,193	1,694,811
Other expenses	468,434	281,177	47,082	796,693	935,839
Utilities	694,303	34,949	18,273	747,525	559,415
Production and printing services	229,157	689	473,007	702,853	646,906
Postage	181,240	9,125	348,794	539,159	300,599
Maintenance and repair	371,830	19,395	8,356	399,581	480,427
Insurance	203,569	131,673		335,242	294,088
Rent	317,645	7,631		325,276	287,320
Auto and truck expenses	253,036	7,382	5,807	266,225	242,069
Advertising costs	79,777		159,181	238,958	218,866
Food cost	197,926	548	824	199,298	186,372
Household expenses	195,274	1,033	2,658	198,965	183,550
Industrial insurance	177,982	5,057	5,335	188,374	203,918
Telephone	140,573	9,532	13,008	163,113	103,494
Office supplies	95,613	7,107	19,183	121,903	85,007
Travel and conventions	96,403	11,330	8,255	115,988	90,692
Staff training and education	75,974	25,430	4,475	105,879	94,983
Interest expense and other financing costs	31,237			31,237	37,336
Total expenses	20,681,668	2,079,417	3,393,174	26,154,259	24,995,715
Less expenses netted against revenue on the statement of activities			(201,425)	(201,425)	(188,752)
Total expenses included on the statement of activities	<u>\$ 20,681,668</u>	<u>\$ 2,079,417</u>	<u>\$ 3,191,749</u>	<u>\$ 25,952,834</u>	<u>\$ 24,806,963</u>

See Notes to Financial Statements

SEATTLE'S UNION GOSPEL MISSION

STATEMENT OF CASH FLOWS

For the Year Ended August 31, 2017
(With Comparative Totals for 2016)

	2017	2016 (Restated)
Cash Flows from Operating Activities		
Change in net assets	\$ (1,847,447)	\$ 2,774,916
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation and amortization	1,492,344	1,475,822
Unrealized and realized gains on investments	(415,910)	(172,567)
Change in value of gift annuity agreements	(22,590)	(15,635)
Gain on insurance settlement		(3,100,000)
Grant awarded for capital project		(2,000,000)
Changes in operating assets and operating liabilities		
Grants, pledges, and estates receivable	27,934	586,832
Inventory	(1,176,559)	(308,827)
Prepaid expenses and other	40,675	84,248
Accounts payable and accrued expenses	(162,737)	304,831
Net cash flows from operating activities	(2,064,290)	(370,380)
Cash Flows from Investing Activities		
Purchase of land, buildings, and equipment	(1,877,672)	(489,101)
Proceeds from insurance settlement		3,100,000
Purchase of investments	(1,579,817)	(433,586)
Proceeds from sales of investments	1,547,086	430,650
Net cash flows from investing activities	(1,910,403)	2,607,963
Cash Flows from Financing Activities		
Receipt of grant award restricted for capital project	2,000,000	
Payments on notes payable	(123,955)	(190,718)
Net cash flows from financing activities	1,876,045	(190,718)
Net change in cash and cash equivalents	(2,098,648)	2,046,865
Cash and Cash Equivalents, beginning of year	3,256,816	1,209,951
Cash and Cash Equivalents, end of year	\$ 1,158,168	\$ 3,256,816
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for interest	\$ 31,237	\$ 37,336

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

Note 1. Mission 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 Mission 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.

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 Mission 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:

	<u>2017</u>	<u>2016</u>
Undesignated, available for operations	\$ 30,473,161	\$ 31,928,538
Board-designated reserves		
Operating reserve	1,824,568	1,769,337
General reserve	5,171,762	5,671,762
	<u>\$ 37,469,491</u>	<u>\$ 39,369,637</u>

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

	<u>2017</u>	<u>2016</u>
Restricted for continued program use, invested in property and equipment	\$ 3,000,000	\$ 3,000,000
Other	<u>64,349</u>	<u>11,650</u>
	<u>\$ 3,064,349</u>	<u>\$ 3,011,650</u>

The Mission has been awarded two separate loans for a total of \$3,000,000 that is to be used or has been used for renovation and rehabilitation of the Mission's facilities. One loan in the amount of \$1 million is forgivable in October 2023, and a second loan in the amount of \$2 million is forgivable in February 2032. The loans are forgivable if certain compliance terms are met during the time each loan is outstanding. As management considers the possibility of any repayment remote, the amounts have been recorded as temporarily restricted revenue and temporarily restricted net assets in the year the loans were awarded. It is the Mission's policy to recognize the release of temporarily restricted net assets once the compliance term of the loans has ended.

- Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that will be maintained permanently by the Mission. 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 statement of cash flows, the Mission 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 Mission maintains its cash and cash equivalents and investments in depository institution accounts that, at times, may exceed federally insured limits.

Receivables

Pledges, notes, grants, 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 of the 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 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 Mission 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, 2017 or 2016.

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 \$4,743,188 and \$4,411,661 for the years ended August 31, 2017 and 2016, 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 \$4,402,440 and \$4,090,399 for the years ended August 31, 2017 and 2016, 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 \$340,748 and \$321,262 for the years ended August 31, 2017 and 2016, respectively.

Operating and Nonoperating Activities

All activities are considered operating except for revenues, expenses, gains, and losses related to capital campaigns, insurance settlements, and property sales.

Advertising Costs

The Mission 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 Mission 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 Mission's annual fundraising gala event. The event is held every year in October as part of the Mission'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 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.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the 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 Mission's financial statements for the year ended August 31, 2016, from which the summarized information was derived.

Reclassifications:

Certain items from the 2016 financial statements have been reclassified to conform to the current presentation.

Subsequent Events

The Mission has evaluated subsequent events through the date these financial statements were available to be issued, which was December 15, 2017.

Note 2. Grants, Pledges, and Estates Receivable

Grants, pledges, and estates receivable are expected to be received in less than one year. At August 31, 2016, 99% of the Mission's grants, pledges, and estates receivable were from one donor. There were no grants, pledges, or estates receivable at August 31, 2017.

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:

	2017	2016
Money market funds	\$ 167,558	\$ 426,601
Fixed income securities		
Municipal bonds		789,872
Certificates of deposit		404,762
Corporate bonds		74,785
Equity securities		
Domestic stocks	1,388,313	1,038,016
International stocks	205,348	110,491
Mutual funds		
Large cap mutual funds	1,571,989	1,345,186
Fixed income mutual funds	1,162,687	78,616
International mutual funds	353,036	107,443
Mid cap mutual funds	176,646	172,306
Medium value fund	70,750	
Medium growth fund	54,489	149,003
Small cap mutual funds	4,724	9,818
Total	<u>\$ 5,155,540</u>	<u>\$ 4,706,899</u>

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

	2017	2016
Dividends and interest	\$ 122,786	\$ 113,676
Unrealized and realized gains	415,910	172,567
Investment fees	<u>(32,646)</u>	<u>(23,800)</u>
	<u>\$ 506,050</u>	<u>\$ 262,443</u>

Note 4. Land, Buildings, and Equipment

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

	<u>2017</u>	<u>2016</u>
Land	\$ 2,960,860	\$ 2,951,224
Buildings and facilities	40,963,647	39,718,107
Equipment and vehicles	7,999,025	7,780,246
Leasehold improvements	<u>250,093</u>	<u>250,093</u>
	52,173,625	50,699,670
Less: accumulated depreciation and amortization	<u>(19,190,914)</u>	<u>(17,697,569)</u>
Total land, buildings, and equipment	32,982,711	33,002,101
Construction in process	<u>432,601</u>	<u>27,883</u>
	<u>\$ 33,415,312</u>	<u>\$ 33,029,984</u>

Construction in process consists primarily of equipment, materials, and construction service costs related to the renovation of the Men's Shelter.

In July 2011, a fire destroyed a four-story apartment building and an adjacent smaller building owned by the Mission. During the year ended August 31, 2012, the Mission 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 year ended August 31, 2016, the Mission recognized a gain of \$3,100,000 due to additional insurance proceeds being received as the final settlement, net of associated expenses, and is included as nonoperating income on the statement of activities and changes in net assets.

Note 5. Notes Payable

Notes payable consisted of the following at August 31:

	<u>2017</u>	<u>2016</u>
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 Mission.	\$ 559,294	\$ 674,049
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.	<u>106,813</u>	<u>116,013</u>
	666,107	790,062
Less: current portion	<u>(134,315)</u>	<u>(128,872)</u>
Noncurrent portion	<u>\$ 531,792</u>	<u>\$ 661,190</u>

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

2018	\$ 134,315
2019	139,990
2020	145,908
2021	152,078
2022	42,224
Thereafter	<u>51,592</u>
	<u>\$ 666,107</u>

Note 6. Line of Credit

In October 2016, the Mission entered an arrangement with a financial institution for a collateralized \$3 million line of credit. There was no amount outstanding on the line of credit at August 31, 2017. Draws on the line of credit bear interest at prime less 0.5% or 3.75% at August 31, 2017. The line of credit matures on February 5, 2018.

Note 7. Gift Annuities Payable/Split Interest Agreements

The Mission 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 Mission 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 \$65,249 and \$87,839 at August 31, 2017 and 2016, 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, 2017 and 2016, was a gain of \$22,590 and \$15,635, respectively.

Note 8. Commitments and Other

Warehouse and Housing Leases

In June 2013, the Mission 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 Mission is obligated to pay its pro rata share of the building's operating expenses, taxes, and insurance. The Mission recognizes the related rent expense on a straight-line basis over the term of the lease. The Mission records the difference between the recognized rental expense and amounts payable under the lease agreements as deferred rent. The Mission's liability for deferred rent totaled \$90,000 as of August 31, 2017 and 2016, 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:

2018	\$	234,548
2019		226,853
2020		212,903
2021		90,740
		<hr/>
	\$	765,044
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Other Operating Leases

The Mission has entered into lease agreements to lease some of the Mission's building space as a lessor. The Mission 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:

2018	\$	79,305
2019		52,943
2020		1,566
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	\$	133,814
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Retirement Plan

The Mission 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 Mission will match 50% of each participant's contribution, up to 4% of the participant's salary. For the years ended August 31, 2017 and 2016, the total retirement plan expense was \$117,891 and \$98,381, respectively.

Note 9. Allocation of Joint Costs

The Mission 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, 2017 and 2016, were \$2,394,496 and \$2,926,119, respectively, of which \$766,239 and \$933,484 were allocated to program and \$1,628,257 and \$1,992,636 were allocated to fundraising.

Note 10. Restatement

During the year ended August 31, 2017, management discovered two errors in the 2016 financial statements. The first error related to how a forgivable loan was recorded years ago. The 2016 financial statements have been restated to correctly report the forgivable loan as part of temporarily restricted net assets. At inception, the forgivable loan should have been recorded as a restricted grant award. The effect of this restatement was to increase temporarily restricted net assets and decrease notes payable by \$1 million at September 1, 2015. The error had no effect on changes in net assets for the years ended August 31, 2017 or 2016. The second error related to recording of expenses in the correct period. The expenses should have been recorded as accounts payable as of August 31, 2016. The effect of this restatement was to increase accounts payable and decrease unrestricted net assets by \$252,887 as of August 31, 2016. This resulted in a decrease of \$252,887 for the change in net assets for the year ended August 31, 2016.

The Mission has restated its August 31, 2016, financial statements for these errors. The effects of these restatements on the Mission's results of operations and balance sheet were as follows for the year ended August 31, 2016:

	<u>As Previously Reported</u>	<u>Change</u>	<u>As Restated</u>
Statement of Financial Position			
Accounts payable	\$ 223,241	\$ 252,887	\$ 476,128
Total current liabilities	1,070,089	252,887	1,322,976
Notes payable, net of current portion	1,661,190	(1,000,000)	661,190
Total liabilities	2,889,488	(747,113)	2,142,375
Net assets			
Unrestricted	39,622,524	(252,887)	39,369,637
Temporarily restricted	2,011,650	1,000,000	3,011,650
Total net assets	41,758,187	747,113	42,505,300
Statement of Activities and Changes in Net Assets			
Program services	19,693,325	92,977	19,786,302
Supporting services			
Management and general	1,875,533	2,108	1,877,641
Fundraising	2,985,218	157,802	3,143,020
Change in net assets - operating	(2,072,197)	(252,887)	(2,325,084)
Total change in net assets	3,027,803	(252,887)	2,774,916
Net assets, beginning of year	38,730,384	1,000,000	39,730,384
Net assets, end of year	41,758,187	747,113	42,505,300
Statement of Functional Expenses			
Marketing, design, and data services	1,499,142	195,669	1,694,811
Other expenses	933,009	2,830	935,839
Professional services	642,602	3,476	646,078
Program and religious material	640,744	222	640,966
Production and printing services	629,140	17,766	646,906
Utilities	558,696	719	559,415
Maintenance and repair	476,038	4,389	480,427
Auto and truck expenses	240,237	1,832	242,069
Advertising costs	202,280	16,586	218,866
Food cost	182,774	3,598	186,372
Household expenses	178,150	5,400	183,550
Staff training and education	94,583	400	94,983
Total expenses	24,742,828	252,887	24,995,715
Total expenses included in the statement of activities	24,554,076	252,887	24,806,963
Statement of Cash Flows			
Change in net assets	3,027,803	(252,887)	2,774,916
Accounts payable and accrued expenses	51,944	252,887	304,831