

SEATTLE'S UNION GOSPEL MISSION

Consolidated Financial Statements
With Independent Auditors' Report

August 31, 2018 and 2017

SEATTLE'S UNION

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1
Consolidated Financial Statements	
Consolidated Statements of Financial Position	3
Consolidated Statement of Activities	4
Consolidated Statement of Functional Expenses - 2018	5
Consolidated Statement of Functional Expenses - 2017	6
Consolidated Statements of Cash Flows	7
Notes to Consolidated Financial Statements	8

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Seattle's Union Gospel Mission (a nonprofit corporation), which comprise the consolidated statement of financial position as of August 31, 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

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

Opinion

The consolidated financial statements of Seattle's Union Gospel Mission as of August 31, 2017, were audited by other auditors whose report dated December 15, 2017, expressed an unmodified opinion on those statements.

Prior Period Financial Statements

The consolidated financial statements of Seattle's Union Gospel Mission as of August 31, 2017, were audited by other auditors whose report dated December 15, 2017, expressed an unmodified opinion on those statements.

Emphasis of a Matter

As discussed in Note 17, certain amounts in the consolidated financial statements as of and for the year ended August 31, 2017, were restated. Our opinion is not modified with respect to this matter.

Capin Crouse LLP

Tarzana, California
January 11, 2019

SEATTLE'S UNION GOSPEL MISSION

Consolidated Statements of Financial Position

	August 31,	
	2018	2017 (as restated)
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 1,330,464	\$ 1,093,819
Inventory	1,193,322	2,675,228
Prepaid expenses and other assets	232,073	86,698
	2,755,859	3,855,745
Investments	5,662,072	5,155,540
Land, buildings, and equipment, net	33,535,587	32,676,128
Assets held for capital projects	42,322	64,349
	\$ 41,995,840	\$ 41,751,762
LIABILITIES AND NET ASSETS:		
Current liabilities:		
Accounts payable	\$ 213,529	\$ 157,946
Accrued expenses	691,595	853,791
Current portion of gift annuities payable	4,811	14,091
Current portion of notes payable	225,519	134,315
Line of credit payable	1,502,322	-
	2,637,776	1,160,143
Gift annuities payable, net of current portion	21,627	51,158
Capital lease obligations	138,090	-
Notes payable, net of current portion	387,056	531,792
Deferred rent	67,567	90,000
	3,252,116	1,833,093
Net assets:		
Unrestricted	35,577,389	36,730,307
Temporarily restricted	3,042,322	3,064,349
Permanently restricted	124,013	124,013
	38,743,724	39,918,669
Total Liabilities and Net Assets	\$ 41,995,840	\$ 41,751,762

See notes to consolidated financial statements

SEATTLE'S UNION GOSPEL MISSION

Consolidated Statements of Activities

	Year Ended August 31,							
	2018				2017 (as restated)			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE:								
Contributions:								
Individuals	\$ 11,416,592	\$ 56,905	\$ -	\$ 11,473,497	\$ 11,728,223	\$ 30,500	\$ -	\$ 11,758,723
Churches	195,998	-	-	195,998	310,121	-	-	310,121
Companies	503,727	-	-	503,727	472,936	-	-	472,936
Foundations	1,828,496	-	-	1,828,496	1,549,822	-	-	1,549,822
Organizations	1,098,255	-	-	1,098,255	1,294,097	-	-	1,294,097
Estates	1,002,447	-	-	1,002,447	1,031,019	44,300	-	1,075,319
Donated goods	3,171,305	-	-	3,171,305	4,402,440	-	-	4,402,440
Donated services	232,241	-	-	232,241	340,748	-	-	340,748
Donated land	1,200,000	-	-	1,200,000	-	-	-	-
Catalyst event	2,441,020	-	-	2,441,020	1,870,927	-	-	1,870,927
Total Contributions	23,090,081	56,905	-	23,146,986	23,000,333	74,800	-	23,075,133
Revenue:								
Rental income	81,816	-	-	81,816	102,473	-	-	102,473
Program fees	154,381	-	-	154,381	244,663	-	-	244,663
Investment income	517,824	-	-	517,824	506,050	-	-	506,050
Other income	145,728	-	-	145,728	355,903	-	-	355,903
Change in value of annuities	30,273	-	-	30,273	22,590	-	-	22,590
Total Revenue	930,022	-	-	930,022	1,231,679	-	-	1,231,679
RECLASSIFICATIONS:								
Net assets released from restrictions	78,932	(78,932)	-	-	22,101	(22,101)	-	-
Total Support and Revenue	24,099,035	(22,027)	-	24,077,008	24,254,113	52,699	-	24,306,812
EXPENSES:								
Program services	19,361,173	-	-	19,361,173	20,594,571	-	-	20,594,571
Management and general	2,348,193	-	-	2,348,193	2,000,430	-	-	2,000,430
Fundraising	3,392,961	-	-	3,392,961	3,294,558	-	-	3,294,558
Direct benefits to donors	149,626	-	-	149,626	145,024	-	-	145,024
Total Expenses	25,251,953	-	-	25,251,953	26,034,583	-	-	26,034,583
Change in Net Assets	(1,152,918)	(22,027)	-	(1,174,945)	(1,780,470)	52,699	-	(1,727,771)
Net Assets, Beginning of Year	36,730,307	3,064,349	124,013	39,918,669	39,369,637	3,011,650	124,013	42,505,300
Prior period adjustment (Note 17)	-	-	-	-	(858,860)	-	-	(858,860)
Net Assets, Beginning of Year (as restated)	36,730,307	3,064,349	124,013	39,918,669	38,510,777	3,011,650	124,013	41,646,440
Net Assets, End of Year	\$ 35,577,389	\$ 3,042,322	\$ 124,013	\$ 38,743,724	\$ 36,730,307	\$ 3,064,349	\$ 124,013	\$ 39,918,669

See notes to consolidated financial statements

SEATTLE'S UNION GOSPEL MISSION

Consolidated Statement of Functional Expenses Year Ended August 31, 2018

	Program Services	Supporting Activities			Total
		Management & General	Fundraising	Direct Benefits to Donors	
Salaries	\$ 7,128,698	\$ 551,955	\$ 769,482	\$ -	\$ 8,450,135
Employee benefits	1,744,917	383,449	105,992	-	2,234,358
Payroll taxes	503,991	33,369	56,267	-	593,627
Total personnel costs	9,377,606	968,773	931,741	-	11,278,120
In-kind gifts used	4,871,777	6,375	7,300	-	4,885,452
Depreciation and amortization	512,230	768,345	225,984	-	1,506,559
Professional services	565,347	66,989	891,711	-	1,524,047
Program and religious material	622,659	27,197	29,046	-	678,902
Marketing, design, and data services	243,278	767	431,770	149,626	825,441
Other expenses	364,519	146,849	45,376	-	556,744
Utilities	607,471	32,484	12,994	-	652,949
Production and printing services	154,149	360	321,857	-	476,366
Postage	150,470	2,330	302,696	-	455,496
Maintenance and repair	376,991	20,246	8,621	-	405,858
Insurance	107,207	158,547	46,732	-	312,486
Rent	298,068	1,445	573	-	300,086
Auto and truck expenses	215,731	10,262	5,229	-	231,222
Advertising costs	46,356	-	50,380	-	96,736
Food costs	185,632	123	-	-	185,755
Household supplies	162,264	840	3,208	-	166,312
Industrial insurance	133,009	34,479	8,446	-	175,934
Telephone	143,082	11,751	21,153	-	175,986
Office supplies	91,011	49,673	25,864	-	166,548
Travel and conventions	63,745	11,441	10,341	-	85,527
Staff training and education	57,634	12,512	7,114	-	77,260
Interest expense	10,937	16,405	4,825	-	32,167
Total	\$ 19,361,173	\$ 2,348,193	\$ 3,392,961	\$ 149,626	\$ 25,251,953

See notes to consolidated financial statements

SEATTLE'S UNION GOSPEL MISSION

Consolidated Statement of Functional Expenses Year Ended August 31, 2017 (as restated)

	Program Services	Supporting Activities			Total
		Management & General	Fundraising	Direct Benefits to Donors	
Salaries	\$ 8,277,310	\$ 715,150	\$ 872,560	\$ -	\$ 9,865,020
Employee benefits	1,794,588	289,721	114,561	-	2,198,870
Payroll taxes	530,617	36,092	53,829	-	620,538
Total personnel costs	10,602,515	1,040,963	1,040,950	-	12,684,428
In-kind gifts used	3,547,725	11,116	7,865	-	3,566,706
Depreciation and amortization	1,099,127	273,541	-	-	1,372,668
Professional services	526,506	111,624	607,161	-	1,245,291
Program and religious material	785,082	1,094	71,852	-	858,028
Marketing, design, and data services	223,643	10,034	452,492	145,024	831,193
Other expenses	468,434	281,177	47,082	-	796,693
Utilities	694,303	34,949	18,273	-	747,525
Production and printing services	229,157	689	473,007	-	702,853
Postage	181,240	9,125	348,794	-	539,159
Maintenance and repair	371,830	19,395	8,356	-	399,581
Insurance	203,569	131,673	-	-	335,242
Rent	317,645	7,631	-	-	325,276
Auto and truck expenses	253,036	7,382	5,807	-	266,225
Advertising costs	79,777	-	159,181	-	238,958
Food costs	197,926	548	824	-	199,298
Household supplies	195,274	1,033	2,658	-	198,965
Industrial insurance	177,982	5,057	5,335	-	188,374
Telephone	140,573	9,532	13,008	-	163,113
Office supplies	95,613	7,107	19,183	-	121,903
Travel and conventions	96,403	11,330	8,255	-	115,988
Staff training and education	75,974	25,430	4,475	-	105,879
Interest expense	31,237	-	-	-	31,237
Total	\$ 20,594,571	\$ 2,000,430	\$ 3,294,558	\$ 145,024	\$ 26,034,583

See notes to consolidated financial statements

SEATTLE'S UNION GOSPEL MISSION

Consolidated Statements of Cash Flows

	Year Ended August 31,	
	2018	2017 (as restated)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (1,174,945)	\$ (1,727,771)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Donated inventory	(3,171,305)	(4,402,440)
Distributed inventory	4,653,211	3,225,958
Donated land	(1,200,000)	-
Depreciation and amortization	1,506,559	1,372,668
Realized and unrealized gains on investments	(411,385)	(415,910)
Change in value of gift annuities	(38,811)	(22,590)
Contributions restricted for capital projects	(56,905)	(74,800)
Changes in operating assets and liabilities:		
Grants, pledges, and estates receivable	-	27,857
Prepaid expenses and other assets	(145,375)	40,675
Accounts payable and accrued expenses	(285,433)	(162,737)
Deferred rent	(22,433)	-
Net Cash Used by Operating Activities	(346,822)	(2,139,090)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of land, buildings, and equipment	(755,085)	(1,877,672)
Purchase of investments	(3,992,488)	(1,579,817)
Proceeds from sale of investments	3,897,341	1,547,086
Change in assets restricted for investment in capital projects	22,027	(64,349)
Net Cash Used by Investing Activities	(828,205)	(1,974,752)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Receipt of grant award restricted for capital project	-	2,000,000
Principal payments on capital lease obligations	(11,405)	-
Borrowings on line of credit	3,350,262	-
Payments on line of credit	(1,847,940)	-
Payments on notes payable	(136,150)	(123,955)
Proceeds from contributions restricted for capital projects	56,905	74,800
Net Cash Provided by Financing Activities	1,411,672	1,950,845
Change in Cash and Cash Equivalents	236,645	(2,162,997)
Cash and Cash Equivalents, Beginning of Year	1,093,819	3,256,816
Cash and Cash Equivalents, End of Year	\$ 1,330,464	\$ 1,093,819
SUPPLEMENTAL DISCLOSURES:		
Cash paid during the period for interest	\$ 59,591	\$ 31,237
Fixed assets acquired through debt and accounts payable	\$ 261,438	\$ -
Fixed assets acquired through capital lease	\$ 149,495	\$ -

See notes to consolidated financial statements

SEATTLE'S UNION GOSPEL MISSION

Notes to Consolidated Financial Statements
August 31, 2018 and 2017

1. NATURE OF 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 Mission is a passionate community of people who follow Christ in his relentless, redeeming love for all people. Its mission is to serve, rescue, and transform those in greatest need through the grace of Jesus Christ. Its goal is to inspire hope, bring healing, and point people to a new life through 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 needs for facilities, special calling and training, and the high cost of doing it alone. The programs include emergency shelters, assistance recovery programs, day and resident camping, youth programs, counseling and jail ministry, feeding programs, and outreach programs to low income families and elderly.

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

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

The Mission's primary revenue source is contributions from donors.

The Mission is exempt from income tax under Section 501(c)(3) of the U.S. Internal Revenue Code (the Code) and comparable state law, except for income taxes pertaining to unrelated business income, and has been classified as a publicly supported organization, which is not a private foundation, under Section 509(a) of the Code. Contributions to the Mission are tax deductible within the limitations prescribed by the Code.

BASIS OF CONSOLIDATION

The consolidated financial statements include the financial resources and activities of each entity listed below. All material intercompany transactions and balances have been eliminated in the consolidated financial statements.

Renovo was formed in February 2015 to develop transitional housing units for women. Renovo is a fully-integrated, supporting organization within the operating structure of the Mission. The Mission is the sole member.

Federal Way Project, LLC, a wholly-owned subsidiary formed in February 2018, was created to hold property held for future development in Federal Way, Washington.

SEATTLE'S UNION GOSPEL MISSION

Notes to Consolidated Financial Statements
August 31, 2018 and 2017

2. SIGNIFICANT ACCOUNTING POLICIES:

The consolidated financial statements of the Mission have been prepared on the accrual basis of accounting. The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. The significant accounting policies followed are described below.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of checking, savings and money market accounts. Certain items that meet the definition of cash equivalents, but are part of a larger pool of investments, are included in investments. At August 31, 2018 and 2017, the Mission's cash balances (including cash held in investments) exceeded federally insured limits by \$273,837 and \$0, respectively. The Mission has not experienced any losses on these accounts and does not believe it is exposed to any significant credit risk on cash and cash equivalents.

INVENTORY

Inventory is valued at the lower of cost or net realizable value and consists of donated goods, including food, clothing, office supplies, and other items. These items are recorded at fair value upon receipt and are determined using the first-in, first-out method. There is no reserve for obsolescence recorded at August 31, 2018 and 2017, as all inventory is considered saleable at lower of cost or net realizable value.

INVESTMENTS

Investments are reported at fair value as further described in Note 13. Investment income is shown net of investment expenses on the statements of activities and is included in unrestricted investment income unless a donor or law temporarily or permanently restricts their use. Donated securities are recorded at market value on the date of gift.

LAND, BUILDINGS, AND EQUIPMENT

Purchased land, buildings, and equipment in excess of \$1,000 are recorded at cost or, if donated, at fair market value on the date of the donation. Buildings and equipment are depreciated on a straight-line basis over their estimated useful lives, ranging from 4 to 50 years. Property donated with restrictions regarding their use and contributions of cash to acquire property are reported as restricted support. Absent any donor stipulations, these restrictions expire when the asset is placed in service, and a reclassification is made from temporarily restricted net assets to unrestricted net assets at that time.

ASSETS HELD FOR CAPITAL PROJECTS

Contributions received that are restricted by donors for expenditures related to capital projects have been segregated from cash and cash equivalents, and shown in this category. The amounts for this purpose have also been recorded in temporarily restricted net assets.

SEATTLE'S UNION GOSPEL MISSION

Notes to Consolidated Financial Statements
August 31, 2018 and 2017

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

GIFT ANNUITIES PAYABLE

The Mission administers gift annuities for which it is obligated to make periodic distributions to designated beneficiaries. A portion of the transfer is considered to be a charitable contribution for income tax purposes. The difference between the amount provided for the gift annuity and the discounted liability for future payments, determined on an actuarial basis, is recognized as unrestricted contribution income at the date of the gift unless the gift portion is restricted. The actuarial liability totaled \$26,438 and \$65,249 at August 31, 2018 and 2017, 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, 2018 and 2017, resulted in a gain of \$30,273 and \$22,590, respectively. Annuity assets are included with investments in the consolidated statements of financial position.

CLASSES OF NET ASSETS

The Mission uses the accrual basis of accounting and recognizes the existence or absence of donor-imposed restrictions. Accordingly, transactions and net assets are classified into three classes described as follows:

- *Unrestricted net assets* are those currently available at the discretion of the Board of Trustees for use in the organization's operations, those designated by the Board for specific purposes, and those resources invested in land, buildings and equipment.
- *Temporarily restricted net assets* are those contributed with donors' restrictions for specific operating purposes or programs, or those with timing restrictions. They are not currently available for use in the Mission's operations until commitments regarding their use have been fulfilled. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.
- *Permanently restricted net assets* are those restricted by donors in perpetuity as endowments. Donor-imposed restrictions limiting the use of the assets or their economic benefit neither expire with the passage of time nor can be removed by satisfying a specific purpose. The disclosures required by the *Reporting Endowment Funds* topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) have not been included in these consolidated financial statements due to immateriality.

SUPPORT AND REVENUE

Contributions are reported as income when made, which may be when cash is received, unconditional promises are made or ownership of donated assets is transferred. Bequests are recorded as income at the time when the Mission has an established right to the bequest and the proceeds are measurable. Contributions restricted by the donor for a specific purpose are recorded as revenue in the temporarily restricted class of net assets until funds have been expended by the Mission for the purposes specified.

SEATTLE'S UNION GOSPEL MISSION

Notes to Consolidated Financial Statements
August 31, 2018 and 2017

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

DONATED GOODS AND SERVICES

Noncash gifts are recorded at their estimated fair market value at the date of donation. For the years ended August 31, 2018 and 2017, the Mission received \$3,171,305 and \$4,402,440, respectively, in food, clothing, and supplies. Donated food items are valued based on a price per pound of \$2, as determined by a study performed by management of the Mission.

Contributed services are recognized as contributions if the services, (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills and would otherwise be purchased by the Mission. The Mission recognized \$232,241 and \$340,748 of donated services for dental and legal services provided during the years ended August 31, 2018 and 2017, respectively.

In addition to contributed services recorded in the consolidated financial statements, many other individuals routinely provide voluntary services to the overall programs of the Mission. These services have a significant impact on making the Mission effective. However, the value of these services is not reflected in the consolidated financial statements because they do not meet the criteria described above.

FUNCTIONAL ALLOCATION OF EXPENSES

All expenses are recorded when incurred in accordance with the accrual basis of accounting. The costs of providing the various program services and supporting activities have been allocated on a functional basis, determined by use of the facilities, level of support effort, and relative program benefited. For the years ended August 31, 2018 and 2017, advertising expenses were \$96,736 and \$238,958, respectively, and are expensed when incurred.

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 program revenue and expenses are recognized at the time the event occurs. Event program revenue received prior the event is recorded as deferred revenue. Event expenses paid prior to the date of the event are recorded as prepaid expenses.

SEATTLE'S UNION GOSPEL MISSION

Notes to Consolidated Financial Statements August 31, 2018 and 2017

3. INVESTMENTS:

Investments consist of the following:

	August 31,	
	2018	2017
Cash and cash equivalents	\$ 88,935	\$ 35,147
Money market mutual funds	-	132,411
Common stocks	1,114,987	1,593,661
Mutual funds	4,458,150	3,394,321
	\$ 5,662,072	\$ 5,155,540

Endowment assets were \$124,013 of the total investment balance as of August 31, 2018 and 2017.

Annuity assets were \$135,173 and \$139,756 of the total investment balance as of August 31, 2018 and 2017, respectively.

Investment income consists of the following:

	August 31,	
	2018	2017
Interest and dividends	\$ 133,340	\$ 122,786
Realized and unrealized gains	411,385	415,910
Investment fees	(26,901)	(32,646)
	\$ 517,824	\$ 506,050

4. LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, and equipment consists of the following:

	August 31,	
	2018	2017
Land	\$ 4,151,225	\$ 2,951,225
Buildings and facilities	37,340,458	35,910,082
Equipment and vehicles	2,823,285	2,426,402
Leasehold improvements	250,093	250,093
	44,565,061	41,537,802
Construction in progress	294,490	427,202
Less accumulated depreciation and amortization	(11,323,964)	(9,288,876)
	\$ 33,535,587	\$ 32,676,128

SEATTLE'S UNION GOSPEL MISSION

Notes to Consolidated Financial Statements August 31, 2018 and 2017

5. NOTES PAYABLE:

Notes payable consist of the following:

	August 31,	
	2018	2017
Note payable to First Sound Bank, with monthly interest and principal installments of \$11,723. The interest rate is fixed at 4.0% through the due date of the loan. The note is due in November 2021 and is secured by real property owned by the Mission.	\$ 438,356	\$ 559,294
Note payable to King County Bank, with quarterly interest and principal installments of \$4,662. The interest rate is fixed at 4.13% through the due date of the loan. The note is due in December 2023 and is unsecured.	91,601	106,813
Construction loan with maximum borrowings of \$350,000, payable to 1st Security Bank of Washington, with all principal and interest due in April 2019. The interest rate is fixed at 5.50% through the due date of the loan. The note is secured by real property owned by the Mission. Subsequent to fiscal year end, the Mission borrowed an additional \$14,000.	82,618	-
	612,575	666,107
Less current portion of notes payable	(225,519)	(134,315)
	\$ 387,056	\$ 531,792

Notes payable mature as follows for the year ending August 31:

2019	\$	225,519
2020		148,253
2021		153,816
2022		64,758
2023		18,465
Thereafter		1,764
	\$	612,575

Total interest costs incurred, including amounts incurred on the line of credit, were \$32,167 and \$31,237 for the years ended August 31, 2018 and 2017, respectively.

Long-term debt agreements contained certain administrative covenants. The Mission was in compliance with all covenants as of the date of this report.

SEATTLE'S UNION GOSPEL MISSION

Notes to Consolidated Financial Statements August 31, 2018 and 2017

6. LINE OF CREDIT:

The Mission has a revolving line of credit with a bank, allowing for maximum borrowings of \$3,000,000, of which \$1,502,322 and \$0 were outstanding at August 31, 2018 and 2017, respectively. Interest on the line of credit is paid monthly at the prime rate less 0.5%, with a floor of 3.75% (prime was 5.0% at August 31, 2018). This line of credit is secured by investment assets of the Mission, and expires in March 2019. Subsequent to fiscal year end, the Mission borrowed an additional net amount of \$104,992.

7. NET ASSETS:

Net assets consist of the following:

	August 31,	
	2018	2017
Unrestricted:		
Undesignated	\$ (4,180,206)	\$ (2,382,857)
Equity in land, buildings and equipment - net of related long-term debt and capital lease obligations	32,876,523	32,116,834
Board-designated reserves:		
Operating reserve	3,250,310	1,824,568
General reserve	3,630,762	5,171,762
	35,577,389	36,730,307
Temporarily restricted:		
Restricted for continued program use, invested in property and equipment	3,000,000	3,000,000
Restricted for capital projects	42,322	64,349
	3,042,322	3,064,349
Permanently restricted for endowment	124,013	124,013
	<u>\$ 38,743,724</u>	<u>\$ 39,918,669</u>

The Mission has been awarded two separate loans for a total of \$3,000,000 that are to be used or have been used for renovation and rehabilitation of the Mission's facilities. One loan in the amount of \$1,000,000 is forgivable in March 2024, and a second loan in the amount of \$2,000,000 is forgivable 15 years after the completion of the Men's Shelter renovation, which is expected to be completed in fiscal year 2019. 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 terms of the loans have ended.

The donors of the permanently restricted assets permit the use of all or part of the earnings from endowment assets for general or specific purposes.

SEATTLE'S UNION GOSPEL MISSION

Notes to Consolidated Financial Statements
August 31, 2018 and 2017

8. OPERATING 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 \$67,567 and \$90,000 at August 31, 2018 and 2017, respectively. Rent expense resulting from this lease was \$183,635 for both the years ended August 31, 2018 and 2017, respectively.

Future minimum annual payments due under the terms of this lease agreement are as follows:

Year ending August 31,	Amount
2019	\$ 207,708
2020	212,903
2021	90,740
	\$ 511,351

The Mission also has several lease agreements for office equipment and use of facilities. These leases have various expiration dates through May 2020. Rental payments related to these leases totaled \$34,672 and \$35,158 for the years ended August 31, 2018 and 2017, respectively.

Future minimum annual payments due under the terms of these lease agreements are as follows:

Year ending August 31,	Amount
2019	\$ 21,482
2020	1,754
	\$ 23,236

9. CAPITAL LEASE OBLIGATIONS:

The Mission has capital lease agreements for a vehicle and office equipment. The leases have various expiration dates through May 2025 and require monthly payments totaling \$2,554. Payments on these leases totaled \$18,839 for the year ended August 31, 2018.

	August 31, 2018
Equipment and vehicles	\$ 149,495
Less accumulated depreciation	(17,196)
Net book value	\$ 132,299

SEATTLE'S UNION GOSPEL MISSION

Notes to Consolidated Financial Statements
August 31, 2018 and 2017

9. CAPITAL LEASE OBLIGATIONS, continued:

Future minimum annual payments under the terms of capital lease agreements are as follows:

<u>Year ending August 31,</u>	<u>Amount</u>
2019	\$ 30,644
2020	30,644
2021	30,644
2022	30,644
2023	30,644
Thereafter	<u>32,748</u>
	185,968
Less amount representing interest	<u>(47,878)</u>
Present value of minimum capital lease payments	<u>\$ 138,090</u>

10. SPACE SHARING REVENUE:

The Mission has several space sharing agreements that have various expiration dates through October 2019 and require monthly payments of \$1,505 to \$3,000. Space sharing income associated with these agreements totaled \$81,816 and \$102,473 for the years ended August 31, 2018 and 2017, respectively. The Mission has reviewed all of these relationships and believes this income is received in furtherance of its exempt purpose.

11. RETIREMENT PLAN:

The Mission has established a defined contribution retirement 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, 2018 and 2017, the Mission contributed \$122,463 and \$117,891, respectively, to the plan.

12. ALLOCATION OF JOINT COSTS:

The Mission conducts activities that involve a combination of fund-raising and program activities. These activities are related to newspaper print ads. Total joint costs for the years ended August 31, 2018 and 2017, were \$144,654 and \$127,584, respectively. Of those costs, \$46,289 and \$40,827 were allocated to program and \$98,365 and \$86,757 were allocated to fundraising for fiscal years 2018 and 2017, respectively.

13. FAIR VALUE MEASUREMENTS:

The Mission has adopted the provisions of the Fair Value Measurements and Disclosure topic of the Financial Accounting Standards Board Accounting Standards Codification. These standards define fair value, establish a framework for measuring fair value and enhance disclosures about fair value measurements. Fair value is defined under the standards as the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market between market participants on the measurement date.

SEATTLE'S UNION GOSPEL MISSION

Notes to Consolidated Financial Statements
August 31, 2018 and 2017

13. FAIR VALUE MEASUREMENTS, continued:

The fair values of investments are based on the framework established in the standards which establishes a three-level hierarchy for determining fair value. The valuations for each of these levels are determined as follows:

Level 1 - Quoted market prices in active markets for identical assets or liabilities.

Level 2 - Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The Mission uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Mission measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs are used only when Level 1 or Level 2 inputs are not available.

The following tables present the fair value measurements of assets recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall:

	August 31, 2018	
	Fair Value	Level 1
Investments held at fair value:		
Common stocks	\$ 1,114,987	\$ 1,114,987
Mutual funds:		
Equity	2,354,050	2,354,050
Fixed income	2,104,100	2,104,100
Total investments held at fair value	5,573,137	\$ 5,573,137
Investments held at cost:		
Cash and cash equivalents	88,935	
Total investments	\$ 5,662,072	

SEATTLE'S UNION GOSPEL MISSION

Notes to Consolidated Financial Statements
August 31, 2018 and 2017

13. FAIR VALUE MEASUREMENTS, continued:

	August 31, 2017	
	Fair Value	Level 1
Investments held at fair value:		
Money market mutual funds	\$ 132,411	\$ 132,411
Common stocks	1,593,661	1,593,661
Mutual funds:		
Equity	2,231,634	2,231,634
Fixed income	1,162,687	1,162,687
Total investments held at fair value	5,120,393	\$ 5,120,393
Investments held at cost:		
Cash and cash equivalents	35,147	
Total investments	\$ 5,155,540	

Level 1 Fair Value Measurements

The fair value of equity and mutual funds securities are based on quoted market prices.

14. RELATED PARTY TRANSACTIONS:

During the years ended August 31, 2018 and 2017, the Mission paid \$63,600 and \$57,260, respectively, to a radio broadcasting company employing a Board member of the Mission.

The Mission also utilizes the services of an investment advisor for its bond portfolio whose owner is also a Board member of the Mission. No direct fees were paid to the advisory firm for the years ended August 31, 2018 and 2017. Gift in kind revenue and expense has not been recorded due to immateriality.

15. COMMITMENTS AND CONTINGENCIES:

The Mission entered into several agreements for building renovations related to the Men's Shelter totaling approximately \$2,000,000. As of August 31, 2018, approximately \$600,000 remained outstanding.

16. LEGAL MATTERS:

The Mission is involved in various legal matters that arose in the ordinary course of operations. As any potential loss cannot be reasonably estimated at this time, no accrual has been recorded.

SEATTLE'S UNION GOSPEL MISSION

Notes to Consolidated Financial Statements August 31, 2018 and 2017

17. PRIOR YEAR RESTATEMENT:

The previously issued financial statements for the year ended August 31, 2017, included errors in the balances for land, buildings and equipment. These errors occurred during prior years. Accordingly, a prior period adjustment has been recorded to correct the errors. The effects of these adjustments on 2017 opening net assets, change in net assets and 2017 ending balances were as follows:

	As Previously Stated	Prior Period Restatement	As Restated
September 1, 2016:			
Statement of financial position:			
Land, buildings and equipment, net	\$ 33,029,984	\$ (858,860)	\$ 32,171,124
Unrestricted net assets	\$ 39,369,637	\$ (858,860)	\$ 38,510,777
August 31, 2017:			
Statement of financial position:			
Land, buildings and equipment, net	\$ 33,415,312	\$ (739,184)	\$ 32,676,128
Unrestricted net assets	\$ 37,469,491	\$ (739,184)	\$ 36,730,307
Statement of activities - Year Ended August 31, 2017:			
Expenses			
Program expenses	\$ 20,635,260	\$ (40,689)	\$ 20,594,571
Management and general	\$ 2,079,417	\$ (78,987)	\$ 2,000,430
Change in Net Assets			
Unrestricted	\$ (1,900,146)	\$ 119,676	\$ (1,780,470)
Statement of functional expenses - Year Ended August 31, 2017:			
Depreciation and amortization:			
Program services	\$ 1,139,816	\$ (40,689)	\$ 1,099,127
Management and general	\$ 352,528	\$ (78,987)	\$ 273,541
Statement of cash flows - Year Ended August 31, 2017:			
Changes in:			
Depreciation and amortization	\$ 1,492,344	\$ (119,676)	\$ 1,372,668

18. SUBSEQUENT EVENTS:

Subsequent events have been evaluated through January 11, 2019, which represents the date the consolidated financial statements were available to be issued. Subsequent events after that date have not been evaluated.