

SEATTLE'S UNION GOSPEL MISSION

Consolidated Financial Statements
With Independent Auditors' Report

August 31, 2019 and 2018

SEATTLE'S UNION GOSPEL MISSION

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1
Consolidated Financial Statements	
Consolidated Statements of Financial Position	3
Consolidated Statements of Activities	4
Consolidated Statement of Functional Expenses - 2019	5
Consolidated Statement of Functional Expenses - 2018	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, which comprise the consolidated statements of financial position as of August 31, 2019 and 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Seattle's Union Gospel Mission as of August 31, 2019 and 2018, and the changes in its consolidated net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

Seattle's Union Gospel Mission has adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, as described in Note 2. Our opinion is not modified with respect to this matter.

Capin Crouse LLP

Tarzana, California
November 22, 2019

SEATTLE'S UNION GOSPEL MISSION

Consolidated Statements of Financial Position

	August 31,	
	2019	2018
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 526,850	\$ 1,330,464
Inventory	1,259,320	1,193,322
Prepaid expenses and other assets	74,081	232,073
	1,860,251	2,755,859
Investments	12,244,231	5,662,072
Land, buildings, and equipment, net	33,052,631	33,535,587
Assets held for capital projects	56,822	42,322
	\$ 47,213,935	\$ 41,995,840
Total Assets	\$ 47,213,935	\$ 41,995,840
LIABILITIES AND NET ASSETS:		
Current liabilities:		
Accounts payable	\$ 138,591	\$ 213,529
Accrued expenses	686,057	691,595
Current portion of gift annuities payable	2,319	4,811
Current portion of capital lease obligations	18,988	17,077
Current portion of notes payable	130,534	208,042
Current portion of deferred liabilities	47,916	42,721
Line of credit payable	804,436	1,502,322
	1,828,841	2,680,097
Gift annuities payable, net of current portion	30,638	21,627
Capital lease obligations, net of current portion	102,025	121,013
Notes payable, net of current portion	182,626	312,932
Deferred liabilities	69,702	116,447
	2,213,832	3,252,116
Net assets:		
Net assets without donor restrictions	35,560,373	35,577,389
Net assets with donor restrictions	9,439,730	3,166,335
	45,000,103	38,743,724
Total Liabilities and Net Assets	\$ 47,213,935	\$ 41,995,840

See notes to consolidated financial statements

SEATTLE'S UNION GOSPEL MISSION

Consolidated Statements of Activities

	Year Ended August 31,					
	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE:						
Contributions:						
Individuals	\$ 11,449,589	\$ 6,049,500	\$17,499,089	\$ 11,416,592	\$ 56,905	\$11,473,497
Churches	226,359	-	226,359	195,998	-	195,998
Companies	416,425	-	416,425	503,727	-	503,727
Foundations	2,071,073	-	2,071,073	1,828,496	-	1,828,496
Organizations	1,160,754	-	1,160,754	1,098,255	-	1,098,255
Estates	1,205,187	-	1,205,187	1,002,447	-	1,002,447
Donated goods	5,311,074	-	5,311,074	3,171,305	-	3,171,305
Donated services	75,095	-	75,095	232,241	-	232,241
Donated land	-	-	-	1,200,000	-	1,200,000
Catalyst event	2,334,152	-	2,334,152	2,441,020	-	2,441,020
Total Contributions	24,249,708	6,049,500	30,299,208	23,090,081	56,905	23,146,986
Revenue:						
Rental income	103,153	-	103,153	81,816	-	81,816
Program fees	124,797	-	124,797	154,381	-	154,381
Investment income	369,074	258,895	627,969	517,824	-	517,824
Other income	599,378	-	599,378	145,728	-	145,728
Change in value of annuities	(15,361)	-	(15,361)	30,273	-	30,273
Total Revenue	1,181,041	258,895	1,439,936	930,022	-	930,022
RECLASSIFICATIONS:						
Net assets released from restrictions	35,000	(35,000)	-	78,932	(78,932)	-
Total Support and Revenue	25,465,749	6,273,395	31,739,144	24,099,035	(22,027)	24,077,008
EXPENSES:						
Program services	19,278,372	-	19,278,372	19,361,173	-	19,361,173
Management and general	2,399,348	-	2,399,348	2,348,193	-	2,348,193
Fundraising	3,454,940	-	3,454,940	3,392,961	-	3,392,961
Direct benefits to donors	350,105	-	350,105	149,626	-	149,626
Total Expenses	25,482,765	-	25,482,765	25,251,953	-	25,251,953
Change in Net Assets	(17,016)	6,273,395	6,256,379	(1,152,918)	(22,027)	(1,174,945)
Net Assets, Beginning of Year	35,577,389	3,166,335	38,743,724	36,730,307	3,188,362	39,918,669
Net Assets, End of Year	<u>\$35,560,373</u>	<u>\$ 9,439,730</u>	<u>\$45,000,103</u>	<u>\$35,577,389</u>	<u>\$ 3,166,335</u>	<u>\$38,743,724</u>

See notes to consolidated financial statements

SEATTLE'S UNION GOSPEL MISSION

Consolidated Statement of Functional Expenses

Year Ended August 31, 2019

	Supporting Activities				Total
	Program Services	Management & General	Fundraising	Direct Benefits to Donors	
Salaries	\$ 7,487,799	\$ 467,812	\$ 1,137,163	\$ -	\$ 9,092,774
Employee benefits	1,786,715	456,810	105,912	-	2,349,437
Payroll taxes	510,790	38,181	72,590	-	621,561
Total personnel costs	9,785,304	962,803	1,315,665	-	12,063,772
In-kind gifts used	5,298,919	6,807	14,445	-	5,320,171
Professional services	599,333	46,549	1,068,098	-	1,713,980
Depreciation and amortization	523,161	786,156	231,165	-	1,540,482
Production and printing services	231,972	594	460,897	-	693,463
Utilities	634,122	33,854	13,541	-	681,517
Other expenses	100,183	236,534	20,859	61,499	419,075
Maintenance and repair	352,278	20,357	8,644	-	381,279
Program and religious material	362,094	2,734	13,911	-	378,739
Marketing, design, and data services	99,129	102	78,090	199,333	376,654
Rent	251,185	242	92	30,796	282,315
Insurance	93,047	139,571	41,050	-	273,668
Office supplies	135,694	73,182	36,037	-	244,913
Food costs	124,773	66	1,445	58,477	184,761
Auto and truck expenses	170,897	8,755	4,081	-	183,733
Household supplies	159,191	410	839	-	160,440
Telephone	112,894	9,141	20,778	-	142,813
Postage	53,317	9,036	74,860	-	137,213
Industrial insurance	83,077	25,037	5,690	-	113,804
Interest expense	17,194	25,792	7,586	-	50,572
Travel and conventions	40,337	4,229	5,264	-	49,830
Staff training and education	35,961	7,397	2,577	-	45,935
Advertising costs	14,310	-	29,326	-	43,636
Total	\$ 19,278,372	\$ 2,399,348	\$ 3,454,940	\$ 350,105	\$ 25,482,765

See notes to consolidated financial statements

SEATTLE'S UNION GOSPEL MISSION

Consolidated Statement of Functional Expenses

Year Ended August 31, 2018

	Supporting Activities				Total
	Program Services	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	<u>9,377,606</u>	<u>968,773</u>	<u>931,741</u>	<u>-</u>	<u>11,278,120</u>
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	343,560	767	431,770	49,344	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	256,263	1,445	573	41,805	300,086
Auto and truck expenses	215,731	10,262	5,229	-	231,222
Advertising costs	46,356	-	50,380	-	96,736
Food costs	127,155	123	-	58,477	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	<u><u>\$ 19,361,173</u></u>	<u><u>\$ 2,348,193</u></u>	<u><u>\$ 3,392,961</u></u>	<u><u>\$ 149,626</u></u>	<u><u>\$ 25,251,953</u></u>

See notes to consolidated financial statements

SEATTLE'S UNION GOSPEL MISSION

Consolidated Statements of Cash Flows

	Year Ended August 31,	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 6,256,379	\$ (1,174,945)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Donated inventory	(5,311,074)	(3,171,305)
Distributed inventory	5,245,076	4,653,211
Donated land	-	(1,200,000)
Depreciation and amortization	1,540,482	1,506,559
Realized and unrealized gains on investments	(429,418)	(411,385)
Gain on disposals of land, buildings, and equipment	(288,526)	-
Change in value of gift annuities	6,519	(38,811)
Contributions restricted for endowment	(6,000,000)	-
Contributions restricted for capital projects	(50,704)	(56,905)
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	157,992	(145,375)
Accounts payable and accrued expenses	(131,125)	(285,433)
Deferred liabilities	(41,550)	(22,433)
Net Cash Provided (Used) by Operating Activities	954,051	(346,822)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of land, buildings, and equipment	(872,459)	(755,085)
Purchase of investments	(16,236,693)	(3,992,488)
Proceeds from sale of investments	10,083,952	3,897,341
Proceeds from sale of land, buildings, and equipment	423,526	-
Change in assets restricted for investment in capital projects	(14,500)	22,027
Net Cash Used by Investing Activities	(6,616,174)	(828,205)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on capital lease obligations	(17,077)	(11,405)
Borrowings on line of credit	6,050,262	3,350,262
Payments on line of credit	(6,748,148)	(1,847,940)
Payments on notes payable	(477,232)	(136,150)
Proceeds from contributions restricted for endowment	6,000,000	-
Proceeds from contributions restricted for capital projects	50,704	56,905
Net Cash Provided by Financing Activities	4,858,509	1,411,672
Change in Cash and Cash Equivalents	(803,614)	236,645
Cash and Cash Equivalents, Beginning of Year	1,330,464	1,093,819
Cash and Cash Equivalents, End of Year	\$ 526,850	\$ 1,330,464
SUPPLEMENTAL DISCLOSURES:		
Cash paid during the period for interest	\$ 53,994	\$ 59,591
Fixed assets acquired through debt and accounts payable	\$ 320,067	\$ 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, 2019 and 2018

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, LLC 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, 2019 and 2018

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, 2019 and 2018, the Mission's cash balances (including cash held in investments) exceeded federally insured limits by \$117,453 and \$802,234, respectively. The Mission has not experienced any losses on these accounts.

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, 2019 and 2018, 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 14. Investment income is shown net of investment expenses on the consolidated statements of activities and is included in investment income without donor restrictions 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 support with donor restrictions. Absent any donor stipulations, these restrictions expire when the asset is placed in service, and a reclassification is made from net assets with donor restrictions to net assets without donor restrictions 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 net assets with donor restrictions.

SEATTLE'S UNION GOSPEL MISSION

Notes to Consolidated Financial Statements

August 31, 2019 and 2018

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 contribution income without donor restrictions at the date of the gift unless the gift portion is restricted. The actuarial liability totaled \$32,957 and \$26,438 at August 31, 2019 and 2018, 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, 2019 and 2018, resulted in a loss of \$15,361 and a gain of \$30,273, 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 two classes described as follows:

- *Net assets without donor restrictions* include general and Board designated amounts, to be used at the discretion of the Board and management to support the Mission's purposes and operations. Portions of the net assets without donor restrictions are invested in land, buildings and equipment.
- *Net assets with donor restrictions* are those which are stipulated by donors for specific operating purposes or programs, those with time restrictions, those for the acquisition of land, buildings and equipment, unspent endowment earnings, or those not currently available for use in the Mission's operations until commitments regarding their use have been fulfilled or lifetime beneficiary interests have ceased. These also include donor restrictions requiring the net assets be held in perpetuity as endowments.

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 with donor restrictions until funds have been expended by the Mission for the purposes specified.

SEATTLE'S UNION GOSPEL MISSION

Notes to Consolidated Financial Statements

August 31, 2019 and 2018

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

DONATED GOODS AND SERVICES

Noncash gifts are recorded at their estimated fair value at the date of donation. For the years ended August 31, 2019 and 2018, the Mission received \$5,311,074 and \$3,171,305, 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 \$75,095 and \$232,241 of donated services for medical, dental and legal services provided during the years ended August 31, 2019 and 2018, 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

The consolidated financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation and occupancy, which are allocated on a square footage basis, as well as salaries and benefits, travel, and certain office expenses, which are allocated on the basis of estimates of time and effort.

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.

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

In 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The Mission adopted the provisions of this new standard during the year ended August 31, 2019. In addition to changes in terminology used to describe categories of net assets throughout the consolidated financial statements, new disclosures were added regarding liquidity and the availability of resources (Note 18), and disclosures related to functional allocation of expenses were expanded.

SEATTLE'S UNION GOSPEL MISSION

Notes to Consolidated Financial Statements

August 31, 2019 and 2018

3. INVESTMENTS:

Investments consist of the following:

	August 31,	
	2019	2018
Cash and cash equivalents	\$ 210,497	\$ 88,935
Common stocks	2,919,506	1,114,987
Mutual funds	9,114,228	4,458,150
	<u>\$ 12,244,231</u>	<u>\$ 5,662,072</u>

Endowment assets were \$6,382,908 and \$124,013 of the total investment balance as of August 31, 2019 and 2018, respectively.

Annuity assets were \$126,397 and \$135,173 of the total investment balance as of August 31, 2019 and 2018, respectively.

4. LAND, BUILDINGS, AND EQUIPMENT, net:

Land, buildings, and equipment, net consists of the following:

	August 31,	
	2019	2018
Land	\$ 4,016,225	\$ 4,151,225
Buildings and facilities	38,739,723	37,340,458
Equipment and vehicles	2,860,387	2,823,285
Leasehold improvements	250,092	250,093
	<u>45,866,427</u>	<u>44,565,061</u>
Construction in progress	50,650	294,490
Less accumulated depreciation and amortization	(12,864,446)	(11,323,964)
	<u>\$ 33,052,631</u>	<u>\$ 33,535,587</u>

SEATTLE'S UNION GOSPEL MISSION

Notes to Consolidated Financial Statements

August 31, 2019 and 2018

5. NOTES PAYABLE:

Notes payable consist of the following:

	August 31,	
	2019	2018
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.	\$ 313,160	\$ 438,356
Construction loan with maximum borrowings of \$350,000, payable to 1st Security Bank of Washington. The interest rate is fixed at 5.50% through the due date of the loan. The loan was paid in full in April 2019.	-	82,618
	313,160	520,974
Less current portion of notes payable	(130,534)	(208,042)
	\$ 182,626	\$ 312,932

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

2020	\$ 130,534
2021	135,852
2022	46,774
	\$ 313,160

Total interest costs incurred, including amounts incurred on the line of credit, were \$50,572 and \$32,167 for the years ended August 31, 2019 and 2018, respectively. No interest was capitalized during the years ended August 31, 2019 and 2018.

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

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 \$804,436 and \$1,502,322 were outstanding at August 31, 2019 and 2018, 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 4.75% at August 31, 2019). This line of credit is secured by investment assets of the Mission, and expires in March 2020. The line of credit contains certain financial and administrative covenants. The Mission was in compliance with those covenants as of the date of this report.

SEATTLE'S UNION GOSPEL MISSION

Notes to Consolidated Financial Statements

August 31, 2019 and 2018

7. NET ASSETS:

Net assets consist of the following:

	August 31,	
	2019	2018
Net assets without donor restrictions:		
Undesignated	\$ 32,044,871	\$ 31,946,627
Board-designated general reserve	3,515,502	3,630,762
Total net assets without donor restrictions	35,560,373	35,577,389
Net assets with donor restrictions:		
Subject to expenditure for specified purpose:		
Restricted for capital projects	56,822	42,322
Subject to the passage of time::		
Restricted for continued program use, invested in property and equipment	3,000,000	3,000,000
Subject to the Mission's spending policy and appropriations:		
Accumulated earnings on endowment funds	258,895	-
Endowment funds restricted in perpetuity	6,124,013	124,013
	6,382,908	124,013
Total net assets with donor restrictions	9,439,730	3,166,335
Total net assets	\$ 45,000,103	\$ 38,743,724

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. The Men's Shelter renovation was completed in 2019; therefore, the loan will be forgive in 2034. 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 revenue with donor restrictions and net assets with donor restrictions in the year the loans were awarded. It is the Mission's policy to recognize the release of net assets with donor restrictions once the compliance terms of the loans have ended.

The donors of the gifts restricted in perpetuity 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, 2019 and 2018

8. ENDOWMENTS FUNDS:

The Mission's endowment consists of 5 funds established for a variety of purposes. Its endowment consists of funds in which the corpus has been restricted by the donors in perpetuity. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Trustees of the Mission has interpreted the 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 Mission classifies net assets restricted in perpetuity as (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. The remaining portion of the donor-restricted endowment fund that is not classified in net assets restricted in perpetuity is classified as net assets restricted by purpose or time until those amounts are appropriated for expenditure by the Mission in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Mission 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

Endowment net assets consist of the following:

	August 31,	
	2019	2018
Endowment funds restricted in perpetuity	\$ 6,124,013	\$ 124,013
Accumulated earnings on endowment funds	258,895	-
	<u>\$ 6,382,908</u>	<u>\$ 124,013</u>

SEATTLE'S UNION GOSPEL MISSION

Notes to Consolidated Financial Statements

August 31, 2019 and 2018

8. ENDOWMENTS FUNDS, continued:

Changes in endowment net assets for the year ended August 31, 2019:

	Accumulated Earnings	Restricted in Perpetuity	Total
Endowment net assets, beginning of year	\$ -	\$ 124,013	\$ 124,013
Investments return, net	258,895	-	258,895
Contributions	-	6,000,000	6,000,000
Amounts appropriated for expenditure	-	-	-
	258,895	6,000,000	6,258,895
Endowment net assets, end of year	\$ 258,895	\$ 6,124,013	\$ 6,382,908

Changes in endowment net assets for the year ended August 31, 2018:

	Accumulated Earnings	Restricted in Perpetuity	Total
Endowment net assets, beginning of year	\$ -	\$ 124,013	\$ 124,013
Investments return, net	-	-	-
Contributions	-	-	-
Amounts appropriated for expenditure	-	-	-
	-	-	-
Endowment net assets, end of year	\$ -	\$ 124,013	\$ 124,013

FUNDS WITH DEFICIENCIES

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Mission to retain as a fund of perpetual duration. There were no funds with deficiencies as of August 31, 2019 and 2018.

RETURN OBJECTIVES AND RISK PARAMETERS

The Mission has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment 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 a donor-specified period(s). The Mission expects its endowment funds, over time, to provide an average rate of return of approximately 5% annually. Actual returns in any given year may vary from this amount.

SEATTLE'S UNION GOSPEL MISSION

Notes to Consolidated Financial Statements

August 31, 2019 and 2018

8. ENDOWMENTS FUNDS, continued:

STRATEGIES EMPLOYED FOR ACHIEVING OBJECTIVES

To satisfy its long-term rate-of-return objectives, the Mission relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

SPENDING POLICY AND HOW THE INVESTMENT OBJECTIVES RELATE TO SPENDING POLICY

For the year ending August 31, 2020, the Mission will set apart for distribution 3.50% of the average value of the endowment based on the prior twelve months ended July 15, 2019. In establishing this percentage, the Mission considers the long-term anticipated return on its endowment. Once the endowment has been in existence for three years, the amount available for appropriation will be calculated using the average of the previous three fiscal year's beginning-period endowment values. This is consistent with the Mission'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. During the year ended August 31, 2019, no appropriations were made.

9. 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 a deferred liability. The Mission's liability for deferred rent totaled \$43,494 and \$67,567 at August 31, 2019 and 2018, respectively. Rent expense resulting from this lease was \$207,708 and \$183,635 for the years ended August 31, 2019 and 2018, respectively.

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

<u>Year ending August 31,</u>	<u>Amount</u>
2020	\$ 212,903
2021	<u>90,740</u>
	<u><u>\$ 303,643</u></u>

SEATTLE'S UNION GOSPEL MISSION

Notes to Consolidated Financial Statements

August 31, 2019 and 2018

9. OPERATING LEASES, continued:

The Mission also has lease agreements for office equipment and use of facilities. These leases have various expiration dates through July 2023. Rental payments related to these leases totaled \$83,365 and \$34,672 for the years ended August 31, 2019 and 2018, respectively.

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

<u>Year ending August 31,</u>	<u>Amount</u>
2020	\$ 65,975
2021	64,221
2022	64,221
2023	58,869
	<u>\$ 253,286</u>

10. CAPITAL LEASE OBLIGATIONS:

The Mission has capital lease agreements for a vehicle and office equipment. The leases have various expiration dates through April 2025 and require monthly payments totaling \$2,554. Payments on these leases totaled \$30,644 and \$18,839 for the years ended August 31, 2019 and 2018, respectively. The vehicle and office equipment and related accumulated amortization for the year ended August 31, 2019, are as follows:

Equipment and vehicles	\$ 149,495
Less accumulated amortization	<u>(38,552)</u>
Net book value	<u>\$ 110,943</u>

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

<u>Year ending August 31,</u>	<u>Amount</u>
2020	\$ 30,644
2021	30,644
2022	30,644
2023	30,644
2024	20,942
Thereafter	11,806
	<u>155,324</u>
Less amount representing interest	<u>(34,311)</u>
Present value of minimum capital lease payments	<u>\$ 121,013</u>

SEATTLE'S UNION GOSPEL MISSION

Notes to Consolidated Financial Statements

August 31, 2019 and 2018

11. 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 \$103,153 and \$81,816 for the years ended August 31, 2019 and 2018, respectively. The Mission has reviewed all of these relationships and believes this income is received in furtherance of its exempt purpose.

12. 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, 2019 and 2018, the Mission contributed \$131,996 and \$122,463, respectively, to the plan.

13. 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, 2019 and 2018, were \$167,874 and \$144,654, respectively. Of those costs, \$53,720 and \$46,289 were allocated to program and \$114,154 and \$98,365 were allocated to fundraising for fiscal years 2019 and 2018, respectively.

14. 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.

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.

SEATTLE'S UNION GOSPEL MISSION

Notes to Consolidated Financial Statements

August 31, 2019 and 2018

14. FAIR VALUE MEASUREMENTS, continued:

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 consolidated 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, 2019	
	Fair Value	Level 1
Investments held at fair value:		
Common stocks	\$ 2,919,506	\$ 2,919,506
Mutual funds:		
Equity	5,298,907	5,298,907
Fixed income	3,815,321	3,815,321
Total investments held at fair value	12,033,734	\$ 12,033,734
Investments held at cost:		
Cash and cash equivalents	210,497	
Total investments	\$ 12,244,231	
	August 31, 2018	
	Fair Value	Level 1
Investments held at fair value:		
Money market mutual funds		
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	

Level 1 Fair Value Measurements

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

SEATTLE'S UNION GOSPEL MISSION

Notes to Consolidated Financial Statements

August 31, 2019 and 2018

15. RELATED PARTY TRANSACTIONS:

During the years ended August 31, 2019 and 2018, the Mission paid \$43,090 and \$63,600, 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, 2019 and 2018. Gift in kind revenue and expense has not been recorded due to immateriality.

16. 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, 2019, there was no outstanding amounts remaining.

17. 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, 2019 and 2018

18. LIQUIDITY AND FUNDS AVAILABLE:

The following reflects the Mission's financial assets as of August 31, 2019, reduced by amounts not available for general expenditure because of contractual or donor-imposed restrictions within one year of the consolidated statements of financial position date.

Financial assets:	
Cash and cash equivalents	\$ 526,850
Investments	12,244,231
Assets held for capital projects	56,822
Financial assets, at year-end	<u>12,827,903</u>
Less those unavailable for general expenditure within one year, due to:	
Investments held for gift annuity reserves	(32,957)
Donor-imposed purpose restrictions	(56,822)
Board designated for general reserves	(3,515,502)
Perpetual endowments and accumulated earnings subject to appropriation beyond one year	<u>(6,166,935)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 3,055,687</u>

The Mission is substantially supported by contribution some of which are with donor restrictions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, the Mission must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditures within one year. As part of its liquidity management, the Mission has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Board of Directors has set a policy that requires the Mission to begin each calendar year with 25% of the budget in liquid cash and cash equivalents. The Mission also has a revolving line of credit with a bank, allowing for maximum borrowings of \$3,000,000, of which \$2,195,564 was available at August 31, 2019. Additionally, the Mission has Board designated net assets without donor restrictions that, while the Mission does not intend to spend these for purposes other than those identified, upon Board approval, they could be made available for current operations, if necessary.

19. SUBSEQUENT EVENTS:

Subsequent events have been evaluated through November 22, 2019, which represents the date the consolidated financial statements were available to be issued. Subsequent events after that date have not been evaluated.