

SEATTLE'S UNION GOSPEL MISSION

Consolidated Financial Statements
With Independent Auditors' Report

August 31, 2021 and 2020

SEATTLE'S UNION GOSPEL MISSION

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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, 2021 and 2020, 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, 2021 and 2020, 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.

Capin Crouse LLP

Woodland Hills, California
November 18, 2021

SEATTLE'S UNION GOSPEL MISSION

Consolidated Statements of Financial Position

	August 31,	
	2021	2020
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 13,166,668	\$ 4,755,818
Inventory	1,291,585	1,483,363
Asset held for sale	102,120	102,120
Prepaid expenses and other assets	393,852	122,327
	14,954,225	6,463,628
Investments	16,423,546	13,382,856
Cash held for capital projects	56,822	56,822
Land, buildings, and equipment, net	32,163,296	32,158,616
	\$ 63,597,889	\$ 52,061,922
Total Assets	\$ 63,597,889	\$ 52,061,922
LIABILITIES AND NET ASSETS:		
Current liabilities:		
Accounts payable	\$ 236,693	\$ 60,536
Accrued expenses	1,002,493	859,951
Refundable advances	54,260	-
Current portion of gift annuities payable	1,410	1,410
Current portion of capital lease obligations	30,644	30,644
Current portion of note payable	47,063	136,272
Current portion of deferred liabilities	18,648	32,874
	1,391,211	1,121,687
Gift annuities payable, net of current portion	20,590	20,590
Capital lease obligations, net of current portion	50,226	71,380
Note payable, net of current portion	-	46,545
Deferred liabilities	6,458	30,967
Total Liabilities	1,468,485	1,291,169
Net assets:		
Net assets without donor restrictions	50,329,633	39,870,257
Net assets with donor restrictions	11,799,771	10,900,496
Total Net Assets	62,129,404	50,770,753
Total Liabilities and Net Assets	\$ 63,597,889	\$ 52,061,922

See notes to consolidated financial statements

SEATTLE'S UNION GOSPEL MISSION

Consolidated Statements of Activities

	Year Ended August 31,					
	2021			2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE:						
Contributions:						
Individuals	\$ 10,397,428	\$ 4,205,723	\$14,603,151	\$ 11,776,452	\$ 1,178,595	\$12,955,047
Churches	283,165	-	283,165	242,096	-	242,096
Companies	858,328	-	858,328	1,150,626	-	1,150,626
Foundations	4,037,838	-	4,037,838	2,645,317	-	2,645,317
Organizations	5,849,690	-	5,849,690	1,179,735	-	1,179,735
Estates	2,318,657	-	2,318,657	1,762,418	-	1,762,418
Government (PPP loan)	-	-	-	-	1,997,200	1,997,200
Donated goods	5,074,905	-	5,074,905	7,370,007	-	7,370,007
Donated services	55,700	-	55,700	125,652	-	125,652
Catalyst event	1,745,450	-	1,745,450	1,765,809	-	1,765,809
Total Contributions	30,621,161	4,205,723	34,826,884	28,018,112	3,175,795	31,193,907
Revenue:						
Rental income	68,893	-	68,893	56,127	-	56,127
Program fees	34,756	-	34,756	55,498	-	55,498
Investment income	1,925,914	1,325,361	3,251,275	647,196	782,101	1,429,297
Other income	59,206	-	59,206	892,223	-	892,223
Change in value of annuities	(1,260)	-	(1,260)	8,883	-	8,883
Total Revenue	2,087,509	1,325,361	3,412,870	1,659,927	782,101	2,442,028
RECLASSIFICATIONS:						
Net assets released from restrictions	4,631,809	(4,631,809)	-	2,497,130	(2,497,130)	-
Total Support and Revenue	37,340,479	899,275	38,239,754	32,175,169	1,460,766	33,635,935
EXPENSES:						
Program services	20,449,013	-	20,449,013	21,416,536	-	21,416,536
Management and general	2,461,792	-	2,461,792	2,544,089	-	2,544,089
Fundraising	3,814,978	-	3,814,978	3,584,278	-	3,584,278
Direct benefits to donors	155,320	-	155,320	320,382	-	320,382
Total Expenses	26,881,103	-	26,881,103	27,865,285	-	27,865,285
Change in Net Assets	10,459,376	899,275	11,358,651	4,309,884	1,460,766	5,770,650
Net Assets, Beginning of Year	39,870,257	10,900,496	50,770,753	35,560,373	9,439,730	45,000,103
Net Assets, End of Year	\$50,329,633	\$11,799,771	\$62,129,404	\$39,870,257	\$10,900,496	\$50,770,753

See notes to consolidated financial statements

SEATTLE'S UNION GOSPEL MISSION

Consolidated Statement of Functional Expenses

Year Ended August 31, 2021

	Program Services	Supporting Activities			Total
		Management & General	Fundraising	Direct Benefits to Donors	
Salaries	\$ 8,039,514	\$ 627,491	\$ 1,412,277	\$ -	\$ 10,079,282
Employee benefits	1,753,620	475,909	108,966	-	2,338,495
Payroll taxes	562,980	41,579	90,329	-	694,888
Total personnel costs	<u>10,356,114</u>	<u>1,144,979</u>	<u>1,611,572</u>	<u>-</u>	<u>13,112,665</u>
In-kind gifts used	5,615,549	3,654	3,650	-	5,622,853
Professional services	729,380	106,574	1,154,340	-	1,990,294
Depreciation	517,530	776,294	228,322	-	1,522,146
Production & printing services	211,041	778	429,934	-	641,753
Other expenses	296,357	66,934	139,185	67,568	570,044
Utilities	531,607	28,340	11,336	-	571,283
Maintenance and repair	514,038	28,586	11,505	-	554,129
Rent	392,039	-	-	-	392,039
Insurance	113,619	170,428	50,126	-	334,173
Office supplies	166,982	67,596	41,043	-	275,621
Program and religious material	226,405	-	-	-	226,405
Household expenses	162,965	787	1,558	-	165,310
Auto and truck expenses	137,872	9,306	3,402	-	150,580
Food cost	139,258	190	826	8,600	148,874
Telephone	107,413	9,098	19,535	-	136,046
Marketing, design & data services	14,519	7	28,527	79,152	122,205
Industrial insurance	88,939	26,803	6,092	-	121,834
Postage	34,718	3,127	60,209	-	98,054
Staff training and education	59,310	17,101	5,473	-	81,884
Covid 19 expenses	26,193	1,053	1,001	-	28,247
Travel and conventions	5,056	157	2,883	-	8,096
Advertising costs	2,109	-	4,459	-	6,568
	<u>\$ 20,449,013</u>	<u>\$ 2,461,792</u>	<u>\$ 3,814,978</u>	<u>\$ 155,320</u>	<u>\$ 26,881,103</u>

See notes to consolidated financial statements

SEATTLE'S UNION GOSPEL MISSION

Consolidated Statement of Functional Expenses

Year Ended August 31, 2020

	Supporting Activities				Total
	Program Services	Management & General	Fundraising	Direct Benefits to Donors	
Salaries	\$ 7,610,052	\$ 639,104	\$ 1,321,646	\$ -	\$ 9,570,802
Employee benefits	1,836,297	489,512	113,092	-	2,438,901
Payroll taxes	524,946	41,849	85,299	-	652,094
Total personnel costs	9,971,295	1,170,465	1,520,037	-	12,661,797
In-kind gifts used	7,420,299	7,607	6,541	-	7,434,447
Professional services	579,610	78,510	974,612	-	1,632,732
Depreciation	511,142	766,713	225,504	-	1,503,359
Production and printing services	388,688	168,649	180,360	98,821	836,518
Utilities	228,664	1,030	463,390	-	693,084
Other expenses	579,228	30,910	12,364	-	622,502
Maintenance and repair	342,036	19,749	7,755	-	369,540
Program and religious material	333,459	1,505	563	-	335,527
Marketing, design, and data services	107,284	160,926	47,331	-	315,541
Rent	213,423	-	-	32,638	246,061
Insurance	109,911	68,667	26,772	-	205,350
Office supplies	143,093	7,207	3,243	-	153,543
Food costs	109,512	10,809	18,741	-	139,062
Auto and truck expenses	136,115	304	114	-	136,533
Household supplies	5,695	-	3,632	124,983	134,310
Telephone	54,561	78	119	63,940	118,698
Postage	43,318	4,097	70,679	-	118,094
Industrial insurance	81,019	24,417	5,549	-	110,985
Interest expense	7,231	10,847	3,190	-	21,268
Travel and conventions	38,480	10,627	4,521	-	53,628
Staff training and education	10,651	972	5,389	-	17,012
Advertising costs	1,822	-	3,872	-	5,694
Total	\$ 21,416,536	\$ 2,544,089	\$ 3,584,278	\$ 320,382	\$ 27,865,285

See notes to consolidated financial statements

SEATTLE'S UNION GOSPEL MISSION

Consolidated Statements of Cash Flows

	Year Ended August 31,	
	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 11,358,651	\$ 5,770,650
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Donated inventory	(5,074,905)	(7,167,923)
Distributed inventory	5,266,683	6,943,880
Depreciation	1,522,146	1,503,359
Forgiveness of Paycheck Protection Program loan	-	(1,997,200)
Realized and unrealized gains on investments	(3,042,030)	(1,180,168)
Gain on disposals of land, buildings, and equipment	-	53,865
Change in value of gift annuities	-	(10,957)
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	(271,525)	(48,246)
Accounts payable and accrued expenses	318,699	407,869
Refundable advances	54,260	-
Deferred liabilities	(38,735)	(53,777)
Net Cash Provided by Operating Activities	10,093,244	4,221,352
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of land, buildings, and equipment	(1,526,826)	(1,077,359)
Purchase of investments	(307,365)	(4,212,946)
Proceeds from sale of investments	308,705	4,254,489
Net Cash Used by Investing Activities	(1,525,486)	(1,035,816)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on capital lease obligations	(21,154)	(18,989)
Borrowings on line of credit	-	600,000
Payments on line of credit	-	(1,404,436)
Payments on notes payable	(135,754)	(130,343)
Proceeds from Paycheck Protection Program loan	-	1,997,200
Net Cash Provided (Used) by Financing Activities	(156,908)	1,043,432
Change in Cash and Cash Equivalents	8,410,850	4,228,968
Cash and Cash Equivalents, Beginning of Year	4,755,818	526,850
Cash and Cash Equivalents, End of Year	\$ 13,166,668	\$ 4,755,818
SUPPLEMENTAL DISCLOSURES:		
Cash paid during the period for interest	\$ 4,166	\$ 24,916
Fixed assets acquired through debt and accounts payable	\$ -	\$ 8,037
Non-cash transaction to recognize Paycheck Protection Program loan forgiveness	\$ -	\$ 1,997,200

See notes to consolidated financial statements

SEATTLE'S UNION GOSPEL MISSION

Notes to Consolidated Financial Statements

August 31, 2021 and 2020

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, recovery assistance 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 (ECFA). The ECFA 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 City Gate 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, 2021 and 2020

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, 2021 and 2020, the Mission's cash balances (including cash held in investments) exceeded federally insured limits by approximately \$12,618,000 and \$4,690,000, respectively. The Mission has not experienced any losses on these accounts.

CASH 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 assets held for capital projects on the statements of financial position. The amounts for this purpose have also been recorded in net assets with donor restrictions.

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, 2021 and 2020, 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 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 fair 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 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.

SEATTLE'S UNION GOSPEL MISSION

Notes to Consolidated Financial Statements

August 31, 2021 and 2020

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

REFUNDABLE ADVANCES

Refundable advances consist of funds received in advance for salaries and benefits for staff at the Mission's men's shelter. These conditional promises to give are recognized as a refundable advance until the conditions of the agreement have been substantially met. Once the conditions are substantially met, the funds are recognized as contributions with donor restrictions and subsequently released from restriction.

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 to the Mission 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 \$22,000 at August 31, 2021 and 2020. 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. 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.

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 to give 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, 2021 and 2020

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, 2021 and 2020, the Mission received \$5,074,905 and \$7,370,007, 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 \$55,700 and \$125,652, of donated services for medical, dental and legal services provided during the years ended August 31, 2021 and 2020, 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 to the event is recorded as deferred revenue. Event expenses paid prior to the event are recorded as prepaid expenses.

RECLASSIFICATIONS

To conform with the presentation for the year ending August 31, 2021, management reclassified approximately \$1,787,000 from employee benefits to payroll taxes on the consolidated statement of functional expense for the year ending August 31, 2020. This reclassification had no effect on the change in net assets.

SEATTLE'S UNION GOSPEL MISSION

Notes to Consolidated Financial Statements

August 31, 2021 and 2020

3. INVESTMENTS:

Investments consist of the following:

	August 31,	
	2021	2020
Cash and cash equivalents	\$ 316,793	\$ 252,853
Common stocks	4,079,273	3,560,759
Mutual funds	12,027,480	9,569,244
	\$ 16,423,546	\$ 13,382,856

Endowment assets were \$8,242,815 and \$7,165,009, of the total investment balance as of August 31, 2021 and 2020, respectively.

Annuity assets were \$145,625 and \$130,766, of the total investment balance as of August 31, 2021 and 2020, respectively.

4. LAND, BUILDINGS, AND EQUIPMENT, NET:

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

	August 31,	
	2021	2020
Land and improvements	\$ 4,192,964	\$ 4,016,225
Buildings and facilities	39,672,122	38,762,848
Equipment and vehicles	2,144,830	1,984,753
Leasehold improvements	217,654	217,654
	46,227,570	44,981,480
Construction in progress	298,215	17,479
Less accumulated depreciation and amortization	(14,362,489)	(12,840,343)
	\$ 32,163,296	\$ 32,158,616

SEATTLE'S UNION GOSPEL MISSION

Notes to Consolidated Financial Statements

August 31, 2021 and 2020

5. NOTE PAYABLE:

Notes payable consists of the following:

	August 31,	
	2021	2020
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.		
	\$ 47,063	\$ 182,817
Less current portion of note payable	(47,063)	(136,272)
	<u>\$ -</u>	<u>\$ 46,545</u>

Total interest costs incurred, including amounts incurred on the line of credit (Note 6), were \$4,922 and \$21,269, for the years ended August 31, 2021 and 2020, respectively. No interest was capitalized during the years ended August 31, 2021 and 2020.

Long-term debt agreements contained certain financial and administrative covenants. The Mission was in compliance with all covenants as of the date the consolidated financial statements were available to be issued.

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 \$0 was outstanding at August 31, 2021 and 2020. Interest on the line of credit is paid monthly at the prime rate less 0.5%, with a floor of 3.75% (prime rate was 3.25% at August 31, 2021). This line of credit is secured by investment assets of the Mission, and expires in March 2022. The Mission did not draw on the line of credit in either of the years ended August 31, 2021 and 2020. The line of credit contains certain financial and administrative covenants. The Mission was in compliance with those covenants as of the date the financial statements were available to be issued.

SEATTLE'S UNION GOSPEL MISSION

Notes to Consolidated Financial Statements

August 31, 2021 and 2020

7. NET ASSETS:

Net assets consist of the following:

	August 31,	
	2021	2020
Net assets without donor restrictions:		
Undesignated	\$ 46,891,431	\$ 36,393,855
Board-designated general reserve	3,438,202	3,476,402
Total net assets without donor restrictions	50,329,633	39,870,257
Net assets with donor restrictions:		
Subject to expenditure for specified purpose:		
Restricted for capital projects	56,822	56,822
COVID-19 relief	11,217	189,748
Subject to the passage of time:		
Restricted for continued program use, invested in property and equipment	3,488,917	3,488,917
	3,556,956	3,735,487
Subject to the Mission's spending policy and appropriations:		
Accumulated earnings on endowment funds	2,118,802	1,040,996
Endowment funds restricted in perpetuity	6,124,013	6,124,013
	8,242,815	7,165,009
Total net assets with donor restrictions	11,799,771	10,900,496
Total net assets	\$ 62,129,404	\$ 50,770,753

SEATTLE'S UNION GOSPEL MISSION

Notes to Consolidated Financial Statements

August 31, 2021 and 2020

7. NET ASSETS, continued:

The Mission has been awarded three separate loans from the Federal Home Loan Bank Board for a total of \$3,488,917 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 the second and third loans in the amounts of \$2,000,000 and \$488,917, respectively, are forgivable 15 years after the completion of the Men's Shelter renovation. The first phase of the Men's Shelter renovation, which was funded by the \$2,000,000 loan, was completed in 2019; therefore, the loan will be forgiven in 2034. The second phase of the Men's Shelter renovation, which is being funded by the \$488,917 loan, is in progress as of August 31, 2021. 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.

8. ENDOWMENT 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 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.

SEATTLE'S UNION GOSPEL MISSION

Notes to Consolidated Financial Statements

August 31, 2021 and 2020

8. ENDOWMENTS FUNDS, continued:

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,	
	2021	2020
Endowment funds restricted in perpetuity	\$ 6,124,013	\$ 6,124,013
Accumulated earnings on endowment funds	2,118,802	1,040,996
	\$ 8,242,815	\$ 7,165,009

Changes in endowment net assets for the year ended August 31, 2021:

	Accumulated Earnings	Restricted in Perpetuity	Total
Endowment net assets, beginning of year	\$ 1,040,996	\$ 6,124,013	\$ 7,165,009
Investments return, net	1,325,361	-	1,325,361
Amounts appropriated for expenditure	(247,555)	-	(247,555)
Endowment net assets, end of year	\$ 2,118,802	\$ 6,124,013	\$ 8,242,815

SEATTLE'S UNION GOSPEL MISSION

Notes to Consolidated Financial Statements

August 31, 2021 and 2020

8. ENDOWMENTS FUNDS, continued:

Changes in endowment net assets for the year ended August 31, 2020:

	Accumulated Earnings	Restricted in Perpetuity	Total
Endowment net assets, beginning of year	\$ 258,895	\$ 6,124,013	\$ 6,382,908
Investments return, net	782,101	-	782,101
Endowment net assets, end of year	<u>\$ 1,040,996</u>	<u>\$ 6,124,013</u>	<u>\$ 7,165,009</u>

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, 2021 and 2020.

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.

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).

SEATTLE'S UNION GOSPEL MISSION

Notes to Consolidated Financial Statements

August 31, 2021 and 2020

8. ENDOWMENTS FUNDS, continued:

SPENDING POLICY AND HOW THE INVESTMENT OBJECTIVES RELATE TO SPENDING POLICY

For the year ending August 31, 2021, the Mission set apart for distribution 3.50% of the average value of the endowment based on the twelve months ended July 15, 2020. 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.

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, 2026. The monthly base rent ranges from \$16,040 to \$33,113, 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. Rent expense resulting from this lease was \$300,740 and \$212,903, for the years ended August 31, 2021 and 2020, respectively.

The Mission also has lease agreements for office equipment and use of facilities. These leases have various expiration dates through July 2025. Rental payments related to these leases totaled \$127,456 and \$65,975, for the years ended August 31, 2021 and 2020, respectively.

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

<u>Year ending August 31,</u>	
2022	\$ 492,007
2023	495,183
2024	439,137
2025	442,367
2026	198,680
	<hr/>
	\$ 2,067,374
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SEATTLE'S UNION GOSPEL MISSION

Notes to Consolidated Financial Statements

August 31, 2021 and 2020

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. The vehicle and office equipment and related accumulated amortization for the year ended August 31, 2021, are as follows:

Equipment and vehicles	\$	149,495
Less accumulated amortization		<u>(81,265)</u>
Net book value	\$	<u><u>68,230</u></u>

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

<u>Year ending August 31,</u>		
2022	\$	30,644
2023		30,644
2024		20,943
2025		<u>11,805</u>
		94,036
Less amount representing interest		<u>(13,166)</u>
Present value of minimum capital lease payments	\$	<u><u>80,870</u></u>

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, 2021 and 2020, the Mission contributed \$129,532 and \$125,510, respectively, to the plan.

SEATTLE'S UNION GOSPEL MISSION

Notes to Consolidated Financial Statements

August 31, 2021 and 2020

12. ALLOCATION OF JOINT COSTS:

The Mission conducts activities that involve a combination of fundraising and program activities. These activities are related to newspaper print ads. Total joint costs for the years ended August 31, 2021 and 2020 were \$619,412 and \$667,337, respectively. Of those costs, \$198,212 and \$213,548 were allocated to program and \$421,200 and \$453,789, were allocated to fundraising for fiscal years 2021 and 2020, respectively.

13. FAIR VALUE MEASUREMENTS:

The Mission has adopted the provisions of the Fair Value Measurements and Disclosure topic of the FASB 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.

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.

SEATTLE'S UNION GOSPEL MISSION

Notes to Consolidated Financial Statements

August 31, 2021 and 2020

13. FAIR VALUE MEASUREMENTS, continued:

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, 2021	
	Fair Value	Level 1
Investments held at fair value:		
Common stocks	\$ 4,079,273	\$ 4,079,273
Mutual funds:		
Equity	7,485,303	7,485,303
Fixed income	4,542,177	4,542,177
Total investments held at fair value	16,106,753	\$ 16,106,753
Investments held at cost:		
Cash and cash equivalents	316,793	
Total investments	\$ 16,423,546	
	August 31, 2020	
	Fair Value	Level 1
Investments held at fair value:		
Common stocks	\$ 3,560,759	\$ 3,560,759
Mutual funds:		
Equity	5,806,941	5,806,941
Fixed income	3,762,303	3,762,303
Total investments held at fair value	13,130,003	\$ 13,130,003
Investments held at cost:		
Cash and cash equivalents	252,853	
Total investments	\$ 13,382,856	

SEATTLE'S UNION GOSPEL MISSION

Notes to Consolidated Financial Statements

August 31, 2021 and 2020

14. RELATED PARTY TRANSACTIONS:

During the years ended August 31, 2021 and 2020, the Mission paid \$14,768 and \$27,590, respectively, to a radio broadcasting company employing a Board member of the Mission.

The Mission's Board of Trustees contributed approximately \$380,000 and \$202,000, during the years ended August 31, 2021 and 2020, respectively.

15. CONCENTRATION RISK:

During the year ended August 31, 2021, the Mission received \$5,008,000, of contributions from one individual, which makes up approximately 17% of total contributions for the year then ended.

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.

17. LIQUIDITY AND FUNDS AVAILABLE:

The following reflects the Mission's financial assets, 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.

	August 31,	
	2021	2020
Financial assets:		
Cash and cash equivalents	\$ 13,166,668	\$ 4,755,818
Investments	16,423,546	13,382,856
Cash held for capital projects	56,822	56,822
Financial assets, at year-end	29,647,036	18,195,496
Less those unavailable for general expenditure within one year, due to:		
Investments held for gift annuity reserves	(22,000)	(22,000)
Donor-imposed purpose restrictions	(56,822)	(56,822)
Board designated for general reserves	(3,438,202)	(3,476,402)
Perpetual endowments and accumulated earnings subject to appropriation beyond one year	(8,018,515)	(6,944,873)
Financial assets available to meet cash needs for general expenditures within one year	\$ 18,111,497	\$ 7,695,399

SEATTLE'S UNION GOSPEL MISSION

Notes to Consolidated Financial Statements

August 31, 2021 and 2020

17. LIQUIDITY AND FUNDS AVAILABLE, continued:

The Mission is substantially supported by contributions 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 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 \$3,000,000 was available at August 31, 2021 and 2020. 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.

18. RISKS AND UNCERTANTIES:

In January 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a "Public Health Emergency of International Concern," which continues to spread throughout the world and has adversely impacted global economic activity and contributed to significant declines and volatility in financial markets, in addition to significant job loss. COVID-19 could have a continued material adverse impact on economic and market conditions and trigger a period of global economic slowdown. The rapid development and fluidity of this situation precludes any prediction as to the ultimate material adverse impact of the COVID-19 outbreak. Nevertheless, the outbreak presents uncertainty and risk with respect to the Mission and its financial results.

19. SUBSEQUENT EVENTS:

Subsequent events have been evaluated through November 18, 2021, which represents the date the consolidated financial statements were available to be issued. Subsequent events after that date have not been evaluated.

SUPPLEMENTAL INFORMATION

**INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTAL INFORMATION**

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

We have audited the consolidated financial statements of Seattle's Union Gospel Mission as of and for the year ended August 31, 2021, and our report dated November 18, 2021, which expressed an unmodified opinion on those consolidated financial statements, appears on page 1. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statements of financial position are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position of the individual organizations, and they are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Capin Crouse LLP

Woodland Hills, California
November 18, 2021

SEATTLE'S UNION GOSPEL MISSION

Supplemental Consolidating Statement of Financial Position

August 31, 2021

	Seattle's Union Gospel Mission	Renovo, LLC	Federal Way Project, LLC	Eliminations	Total
ASSETS:					
Current assets:					
Cash and cash equivalents	\$ 13,166,668	\$ -	\$ -	\$ -	\$ 13,166,668
Inventory	1,291,585	-	-	-	1,291,585
Asset held for sale	102,120	-	-	-	102,120
Prepaid expenses and other assets	393,852	-	-	-	393,852
	14,954,225	-	-	-	14,954,225
Investments	16,423,546	-	-	-	16,423,546
Cash held for capital projects	56,822	-	-	-	56,822
Land, buildings, and equipment, net	29,721,994	1,241,302	1,200,000	-	32,163,296
Total Assets	\$ 61,156,587	\$ 1,241,302	\$ 1,200,000	\$ -	\$ 63,597,889
LIABILITIES AND NET ASSETS:					
Current liabilities:					
Accounts payable	\$ 236,693	\$ -	\$ -	\$ -	\$ 236,693
Accrued expenses	1,002,493	-	-	-	1,002,493
Refundable advances	54,260	-	-	-	54,260
Current portion of gift annuities payable	1,410	-	-	-	1,410
Current portion of capital lease obligations	30,644	-	-	-	30,644
Current portion of note payable	47,063	-	-	-	47,063
Current portion of deferred liabilities	18,648	-	-	-	18,648
	1,391,211	-	-	-	1,391,211
Gift annuities payable, net of current portion	20,590	-	-	-	20,590
Capital lease obligations, net of current portion	50,226	-	-	-	50,226
Deferred liabilities	6,458	-	-	-	6,458
Total Liabilities	1,468,485	-	-	-	1,468,485
Net assets:					
Net assets without donor restrictions	47,888,331	1,241,302	1,200,000	-	50,329,633
Net assets with donor restrictions	11,799,771	-	-	-	11,799,771
Total Net Assets	59,688,102	1,241,302	1,200,000	-	62,129,404
Total Liabilities and Net Assets	\$ 61,156,587	\$ 1,241,302	\$ 1,200,000	\$ -	\$ 63,597,889

SEATTLE'S UNION GOSPEL MISSION

Supplemental Consolidating Statement of Financial Position

August 31, 2020

	Seattle's Union Gospel Mission	Renovo, LLC	Federal Way Project, LLC	Eliminations	Total
ASSETS:					
Current assets:					
Cash and cash equivalents	\$ 4,755,818	\$ -	\$ -	\$ -	\$ 4,755,818
Inventory	1,483,363	-	-	-	1,483,363
Asset held for sale	102,120	-	-	-	102,120
Prepaid expenses and other assets	122,327	-	-	-	122,327
	<u>6,463,628</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,463,628</u>
Investments	13,382,856	-	-	-	13,382,856
Cash held for capital projects	56,822	-	-	-	56,822
Land, buildings, and equipment, net	29,679,800	1,278,816	1,200,000	-	32,158,616
	<u>29,679,800</u>	<u>1,278,816</u>	<u>1,200,000</u>	<u>-</u>	<u>32,158,616</u>
Total Assets	<u>\$ 49,583,106</u>	<u>\$ 1,278,816</u>	<u>\$ 1,200,000</u>	<u>\$ -</u>	<u>\$ 52,061,922</u>
LIABILITIES AND NET ASSETS:					
Current liabilities:					
Accounts payable	\$ 60,536	\$ -	\$ -	\$ -	\$ 60,536
Accrued expenses	859,951	-	-	-	859,951
Current portion of gift annuities payable	1,410	-	-	-	1,410
Current portion of capital lease obligations	30,644	-	-	-	30,644
Current portion of note payable	136,272	-	-	-	136,272
Current portion of deferred liabilities	32,874	-	-	-	32,874
	<u>1,121,687</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,121,687</u>
Gift annuities payable, net of current portion	20,590	-	-	-	20,590
Capital lease obligations, net of current portion	71,380	-	-	-	71,380
Note payable, net of current portion	46,545	-	-	-	46,545
Deferred liabilities	30,967	-	-	-	30,967
Total Liabilities	<u>1,291,169</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,291,169</u>
Net assets:					
Net assets without donor restrictions	37,391,441	1,278,816	1,200,000	-	39,870,257
Net assets with donor restrictions	10,900,496	-	-	-	10,900,496
Total Net Assets	<u>48,291,937</u>	<u>1,278,816</u>	<u>1,200,000</u>	<u>-</u>	<u>50,770,753</u>
Total Liabilities and Net Assets	<u>\$ 49,583,106</u>	<u>\$ 1,278,816</u>	<u>\$ 1,200,000</u>	<u>\$ -</u>	<u>\$ 52,061,922</u>