

SEATTLE'S UNION GOSPEL MISSION

Financial Statements
With Independent Auditors' Report

August 31, 2020 and 2019

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, 2020 and 2019, 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, 2020 and 2019, 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

Tarzana, California
November 20, 2020

SEATTLE'S UNION GOSPEL MISSION

Consolidated Statements of Financial Position

	August 31,	
	2020	2019
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 4,755,818	\$ 526,850
Inventory	1,483,363	1,259,320
Asset held for sale	102,120	-
Prepaid expenses and other assets	122,327	74,081
	6,463,628	1,860,251
Investments	13,382,856	12,244,231
Land, buildings, and equipment, net	32,158,616	33,052,631
Assets held for capital projects	56,822	56,822
	\$ 52,061,922	\$ 47,213,935
Total Assets	\$ 52,061,922	\$ 47,213,935
LIABILITIES AND NET ASSETS:		
Current liabilities:		
Accounts payable	\$ 60,536	\$ 138,591
Accrued expenses	859,951	686,057
Current portion of gift annuities payable	1,410	2,319
Current portion of capital lease obligations	30,644	18,988
Current portion of notes payable	136,272	130,534
Current portion of deferred liabilities	32,874	47,916
Line of credit payable	-	804,436
	1,121,687	1,828,841
Gift annuities payable, net of current portion	20,590	30,638
Capital lease obligations, net of current portion	71,380	102,025
Notes payable, net of current portion	46,545	182,626
Deferred liabilities	30,967	69,702
	1,291,169	2,213,832
Net assets:		
Net assets without donor restrictions	39,870,257	35,560,373
Net assets with donor restrictions	10,900,496	9,439,730
	50,770,753	45,000,103
Total Liabilities and Net Assets	\$ 52,061,922	\$ 47,213,935

See notes to consolidated financial statements

SEATTLE'S UNION GOSPEL MISSION

Consolidated Statements of Activities

	Year Ended August 31,					
	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE:						
Contributions:						
Individuals	\$ 11,776,452	\$ 1,178,595	\$12,955,047	\$ 11,449,589	\$ 6,049,500	\$17,499,089
Churches	242,096	-	242,096	226,359	-	226,359
Companies	1,150,626	-	1,150,626	416,425	-	416,425
Foundations	2,645,317	-	2,645,317	2,071,073	-	2,071,073
Organizations	1,179,735	-	1,179,735	1,160,754	-	1,160,754
Estates	1,762,418	-	1,762,418	1,205,187	-	1,205,187
Government	-	1,997,200	1,997,200	-	-	-
Donated goods	7,167,923	-	7,167,923	5,311,074	-	5,311,074
Donated services	327,736	-	327,736	75,095	-	75,095
Catalyst event	1,765,809	-	1,765,809	2,334,152	-	2,334,152
Total Contributions	28,018,112	3,175,795	31,193,907	24,249,708	6,049,500	30,299,208
Revenue:						
Rental income	56,127	-	56,127	103,153	-	103,153
Program fees	55,498	-	55,498	124,797	-	124,797
Investment income	647,196	782,101	1,429,297	369,074	258,895	627,969
Other income	892,223	-	892,223	599,378	-	599,378
Change in value of annuities	8,883	-	8,883	(15,361)	-	(15,361)
Total Revenue	1,659,927	782,101	2,442,028	1,181,041	258,895	1,439,936
RECLASSIFICATIONS:						
Net assets released from restrictions	2,497,130	(2,497,130)	-	35,000	(35,000)	-
Total Support and Revenue	32,175,169	1,460,766	33,635,935	25,465,749	6,273,395	31,739,144
EXPENSES:						
Program services	21,416,536	-	21,416,536	19,278,372	-	19,278,372
Management and general	2,544,089	-	2,544,089	2,399,348	-	2,399,348
Fundraising	3,584,278	-	3,584,278	3,454,940	-	3,454,940
Direct benefits to donors	320,382	-	320,382	350,105	-	350,105
Total Expenses	27,865,285	-	27,865,285	25,482,765	-	25,482,765
Change in Net Assets	4,309,884	1,460,766	5,770,650	(17,016)	6,273,395	6,256,379
Net Assets, Beginning of Year	35,560,373	9,439,730	45,000,103	35,577,389	3,166,335	38,743,724
Net Assets, End of Year	\$39,870,257	\$10,900,496	\$50,770,753	\$35,560,373	\$ 9,439,730	\$45,000,103

See notes to consolidated financial statements

SEATTLE'S UNION GOSPEL MISSION

Consolidated Statement of Functional Expenses

Year Ended August 31, 2020

	Program Services	Supporting Activities			Total
		Management & General	Fundraising	Direct Benefits to Donors	
Salaries	\$ 7,610,052	\$ 639,104	\$ 1,321,646	\$ -	\$ 9,570,802
Payroll taxes	1,836,297	489,512	113,092	-	2,438,901
Employee benefits	524,946	41,849	85,299	-	652,094
Total personnel costs	<u>9,971,295</u>	<u>1,170,465</u>	<u>1,520,037</u>	-	<u>12,661,797</u>
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 and amortization	511,142	766,713	225,504	-	1,503,359
Other expenses	388,688	168,649	180,360	98,821	836,518
Production and printing services	228,664	1,030	463,390	-	693,084
Utilities	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
Insurance	107,284	160,926	47,331	-	315,541
Rent	213,423	-	-	32,638	246,061
Office supplies	109,911	68,667	26,772	-	205,350
Auto and truck expenses	143,093	7,207	3,243	-	153,543
Telephone	109,512	10,809	18,741	-	139,062
Household supplies	136,115	304	114	-	136,533
Marketing, design, and data services	5,695	-	3,632	124,983	134,310
Food costs	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
Staff training and education	38,480	10,627	4,521	-	53,628
Travel and conventions	10,651	972	5,389	-	17,012
Advertising costs	1,822	-	3,872	-	5,694
Total	<u><u>\$ 21,416,536</u></u>	<u><u>\$ 2,544,089</u></u>	<u><u>\$ 3,584,278</u></u>	<u><u>\$ 320,382</u></u>	<u><u>\$ 27,865,285</u></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	<u>9,785,304</u>	<u>962,803</u>	<u>1,315,665</u>	-	<u>12,063,772</u>
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	<u>\$ 19,278,372</u>	<u>\$ 2,399,348</u>	<u>\$ 3,454,940</u>	<u>\$ 350,105</u>	<u>\$ 25,482,765</u>

See notes to consolidated financial statements

SEATTLE'S UNION GOSPEL MISSION

Consolidated Statements of Cash Flows

	Year Ended August 31,	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 5,770,650	\$ 6,256,379
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Donated inventory	(7,167,923)	(5,311,074)
Distributed inventory	6,943,880	5,245,076
Depreciation and amortization	1,503,359	1,540,482
Noncash revenue recognition of Paycheck Protection Program loan forgiveness	(1,997,200)	-
Realized and unrealized gains on investments	(1,180,168)	(429,418)
(Gain) loss on disposals of land, buildings, and equipment	53,865	(288,526)
Change in value of gift annuities	(10,957)	6,519
Contributions restricted for endowment	-	(6,000,000)
Contributions restricted for capital projects	-	(50,704)
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	(48,246)	157,992
Accounts payable and accrued expenses	407,869	(131,125)
Deferred liabilities	(53,777)	(41,550)
Net Cash Provided by Operating Activities	4,221,352	954,051
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of land, buildings, and equipment	(1,077,359)	(872,459)
Purchase of investments	(4,212,946)	(16,236,693)
Proceeds from sale of investments	4,254,489	10,083,952
Proceeds from sale of land, buildings, and equipment	-	423,526
Change in assets restricted for investment in capital projects	-	(14,500)
Net Cash Used by Investing Activities	(1,035,816)	(6,616,174)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on capital lease obligations	(18,989)	(17,077)
Borrowings on line of credit	600,000	6,050,262
Payments on line of credit	(1,404,436)	(6,748,148)
Payments on notes payable	(130,343)	(477,232)
Proceeds from Paycheck Protection Program loan	1,997,200	-
Proceeds from contributions restricted for endowment	-	6,000,000
Proceeds from contributions restricted for capital projects	-	50,704
Net Cash Provided by Financing Activities	1,043,432	4,858,509
Change in Cash and Cash Equivalents	4,228,968	(803,614)
Cash and Cash Equivalents, Beginning of Year	526,850	1,330,464
Cash and Cash Equivalents, End of Year	\$ 4,755,818	\$ 526,850
SUPPLEMENTAL DISCLOSURES:		
Cash paid during the period for interest	\$ 24,916	\$ 53,994
Fixed assets acquired through debt and accounts payable	\$ 8,037	\$ 320,067

See notes to consolidated financial statements

SEATTLE'S UNION GOSPEL MISSION

Notes to Consolidated Financial Statements

August 31, 2020 and 2019

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, 2020 and 2019

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, 2020 and 2019, the Mission's cash balances (including cash held in investments) exceeded federally insured limits by \$4,689,704 and \$117,453, 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, 2020 and 2019, 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 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 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.

SEATTLE'S UNION GOSPEL MISSION

Notes to Consolidated Financial Statements

August 31, 2020 and 2019

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 \$22,000 and \$32,957 at August 31, 2020 and 2019, 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, 2020 and 2019, resulted in a gain (loss) of \$8,883 and (\$15,361), 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 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.

DONATED GOODS AND SERVICES

Noncash gifts are recorded at their estimated fair value at the date of donation. For the years ended August 31, 2020 and 2019, the Mission received \$7,167,923 and \$5,311,074, 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.

SEATTLE'S UNION GOSPEL MISSION

Notes to Consolidated Financial Statements

August 31, 2020 and 2019

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

DONATED GOODS AND SERVICES, continued

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 \$327,736 and \$75,095 of donated services for medical, dental and legal services provided during the years ended August 31, 2020 and 2019, 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 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received*. The Mission adopted the provisions of this new standard during the year ended June 30, 2020. The new standard provides a framework for determining whether a particular transaction is an exchange transaction or a contribution, and guidance to assist entities in determining whether a contribution is either conditional or unconditional. The ASU has been applied on a modified retrospective basis for agreements that were incomplete as of the ASU's effective date or that were entered into after the effective date. Adoption of this standard had no effect on change in net assets or net assets in total.

SEATTLE'S UNION GOSPEL MISSION

Notes to Consolidated Financial Statements

August 31, 2020 and 2019

3. INVESTMENTS:

Investments consist of the following:

	August 31,	
	2020	2019
Cash and cash equivalents	\$ 252,853	\$ 210,497
Common stocks	3,560,759	2,919,506
Mutual funds	9,569,244	9,114,228
	<u>\$ 13,382,856</u>	<u>\$ 12,244,231</u>

Endowment assets were \$7,165,009 and \$6,382,908 of the total investment balance as of August 31, 2020 and 2019, respectively.

Annuity assets were \$130,766 and \$126,397 of the total investment balance as of August 31, 2020 and 2019, respectively.

4. LAND, BUILDINGS, AND EQUIPMENT, net:

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

	August 31,	
	2020	2019
Land	\$ 4,016,225	\$ 4,016,225
Buildings and facilities	38,762,848	38,739,723
Equipment and vehicles	1,984,753	2,860,387
Leasehold improvements	217,654	250,092
	<u>44,981,480</u>	<u>45,866,427</u>
Construction in progress	17,479	50,650
Less accumulated depreciation and amortization	<u>(12,840,343)</u>	<u>(12,864,446)</u>
	<u>\$ 32,158,616</u>	<u>\$ 33,052,631</u>

SEATTLE'S UNION GOSPEL MISSION

Notes to Consolidated Financial Statements

August 31, 2020 and 2019

5. NOTES PAYABLE:

Notes payable consist of the following:

	August 31,	
	2020	2019
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.	\$ 182,817	\$ 313,160
Less current portion of notes payable	<u>(136,272)</u>	<u>(130,534)</u>
	<u>\$ 46,545</u>	<u>\$ 182,626</u>

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

2021	\$ 136,272
2022	<u>46,545</u>
	<u>\$ 182,817</u>

Total interest costs incurred, including amounts incurred on the line of credit, were \$24,916 and \$50,572 for the years ended August 31, 2020 and 2019, respectively. No interest was capitalized during the years ended August 31, 2020 and 2019.

Long-term debt agreements contained certain financial and administrative covenants. The Mission was in compliance with all covenants as of the date the 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- and \$804,436 were outstanding at August 31, 2020 and 2019, 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 3.25% at August 31, 2020). This line of credit is secured by investment assets of the Mission, and expires in March 2021. 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, 2020 and 2019

7. NET ASSETS:

Net assets consist of the following:

	August 31,	
	2020	2019
Net assets without donor restrictions:		
Undesignated	\$ 36,393,855	\$ 32,044,871
Board-designated general reserve	3,476,402	3,515,502
Total net assets without donor restrictions	39,870,257	35,560,373
Net assets with donor restrictions:		
Subject to expenditure for specified purpose:		
Restricted for capital projects	56,822	56,822
COVID-19 relief	189,748	-
Subject to the passage of time:		
Restricted for continued program use, invested in property and equipment	3,488,917	3,000,000
	3,735,487	3,056,822
Subject to the Mission's spending policy and appropriations:		
Accumulated earnings on endowment funds	1,040,996	258,895
Endowment funds restricted in perpetuity	6,124,013	6,124,013
	7,165,009	6,382,908
Total net assets with donor restrictions	10,900,496	9,439,730
Total net assets	\$ 50,770,753	\$ 45,000,103

SEATTLE'S UNION GOSPEL MISSION

Notes to Consolidated Financial Statements

August 31, 2020 and 2019

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 amount 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 year-end. 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.

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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,	
	2020	2019
Endowment funds restricted in perpetuity	\$ 6,124,013	\$ 6,124,013
Accumulated earnings on endowment funds	1,040,996	258,895
	\$ 7,165,009	\$ 6,382,908

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	1,053,108	-	1,053,108
Amounts appropriated for expenditure	(271,007)	-	(271,007)
Endowment net assets, end of year	\$ 1,040,996	\$ 6,124,013	\$ 7,165,009

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8. ENDOWMENTS FUNDS, continued:

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

	<u>Accumulated Earnings</u>	<u>Restricted in Perpetuity</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 124,013	\$ 124,013
Investments return, net	258,895	-	258,895
Contributions	<u>-</u>	<u>6,000,000</u>	<u>6,000,000</u>
Endowment net assets, end of year	<u>\$ 258,895</u>	<u>\$ 6,124,013</u>	<u>\$ 6,382,908</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, 2020 and 2019.

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

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8. ENDOWMENTS FUNDS, continued:

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 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 \$14,226 and \$43,494 at August 31, 2020 and 2019, respectively. Rent expense resulting from this lease was \$212,903 and \$207,708 for the years ended August 31, 2020 and 2019, 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>
2021	<u>\$ 90,740</u>

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 \$65,975 and \$83,365 for the years ended August 31, 2020 and 2019, respectively.

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Notes to Consolidated Financial Statements

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9. OPERATING LEASES, continued:

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

<u>Year ending August 31,</u>	<u>Amount</u>
2021	\$ 64,221
2022	64,221
2023	<u>58,869</u>
	<u>\$ 187,311</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 \$36,184 and \$30,644 for the years ended August 31, 2020 and 2019, respectively. The vehicle and office equipment and related accumulated amortization for the year ended August 31, 2020, are as follows:

Equipment and vehicles	\$ 149,495
Less accumulated amortization	<u>(59,908)</u>
Net book value	<u>\$ 89,587</u>

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

<u>Year ending August 31,</u>	<u>Amount</u>
2021	\$ 30,644
2022	30,644
2023	30,644
2024	20,943
2025	<u>11,806</u>
	124,681
Less amount representing interest	<u>(22,657)</u>
Present value of minimum capital lease payments	<u>\$ 102,024</u>

SEATTLE'S UNION GOSPEL MISSION

Notes to Consolidated Financial Statements

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11. SPACE SHARING REVENUE:

The Mission has several space sharing agreements that had various expiration dates through October 2019 and require monthly payments of \$1,505 to \$3,000. Space sharing income associated with these agreements totaled \$33,351 and \$103,153, for the years ended August 31, 2020 and 2019, 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, 2020 and 2019, the Mission contributed \$125,510 and \$131,996, respectively, to the plan.

13. 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, 2020 and 2019 were \$671,341 and \$167,874, respectively. Of those costs, \$213,548 and \$53,720 were allocated to program and \$457,793 and \$114,154 were allocated to fundraising for fiscal years 2020 and 2019, respectively.

14. 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.

SEATTLE'S UNION GOSPEL MISSION

Notes to Consolidated Financial Statements

August 31, 2020 and 2019

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, 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	
	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	

SEATTLE'S UNION GOSPEL MISSION

Notes to Consolidated Financial Statements

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15. RELATED PARTY TRANSACTIONS:

During the years ended August 31, 2020 and 2019, the Mission paid \$27,590 and \$43,090, 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, 2020 and 2019. Gift in kind revenue and expense has not been recorded due to immateriality.

The Mission's Board of Trustees contributed approximately \$202,000 and \$72,000 during the years ended August 31, 2020 and 2019, respectively.

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,	
	2020	2019
Financial assets:		
Cash and cash equivalents	\$ 4,755,818	\$ 526,850
Investments	13,382,856	12,244,231
Assets held for capital projects	56,822	56,822
Financial assets, at year-end	<u>18,195,496</u>	<u>12,827,903</u>
Less those unavailable for general expenditure within one year, due to:		
Investments held for gift annuity reserves	(22,000)	(32,957)
Donor-imposed purpose restrictions	(56,822)	(56,822)
Board designated for general reserves	(3,476,402)	(3,515,502)
Perpetual endowments and accumulated earnings subject to appropriation beyond one year	<u>(6,944,873)</u>	<u>(6,166,935)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 7,695,399</u>	<u>\$ 3,055,687</u>

SEATTLE'S UNION GOSPEL MISSION

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August 31, 2020 and 2019

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 and \$2,195,564 was available at August 31, 2020 and 2019, respectively. 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 UNCERTAINTIES:

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 20, 2020, which represents the date the consolidated financial statements were available to be issued. Subsequent events after that date have not been evaluated.