



REPORT OF INDEPENDENT AUDITORS
AND FINANCIAL STATEMENTS

EVERETT GOSPEL MISSION

June 30, 2021

Table of Contents

	PAGE
Report of Independent Auditors	1–2
Financial Statements	
Statement of financial position	3
Statement of activities	4
Statement of functional expenses	5
Statement of cash flows	6
Notes to the financial statements	7–13

Report of Independent Auditors

The Board of Directors
Everett Gospel Mission

Report on the Financial Statements

We have audited the accompanying financial statements of the Everett Gospel Mission (the Agency), which comprise the statement of financial position as of June 30, 2021, and the related statement of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Agency as of June 30, 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Man Adam LLP

Seattle, Washington

October 25, 2022

Everett Gospel Mission
Statement of Financial Position

ASSETS

	June 30, 2021
CURRENT ASSETS	
Cash and cash equivalents	\$ 1,611,656
Grants and contracts receivable	191,387
Accounts receivable	3,835
Inventory	106,473
Prepaid expenses	53,289
Total current assets	1,966,640
PROPERTY AND EQUIPMENT	
Land	586,482
Buildings and improvements	5,937,608
Furniture and equipment	985,550
	7,509,640
Less accumulated depreciation	(3,659,115)
Total property and equipment	3,850,525
OTHER ASSETS	
Contributions receivable - charitable perpetual trust	40,915
Total assets	\$ 5,858,080

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES	
Accounts payable	\$ 120,069
Accrued liabilities	271,803
Current portion of note payable	25,632
Total current liabilities	417,504
LONG-TERM LIABILITIES	
Security deposits	4,130
Notes payable, net of current portion and unamortized deferred loan costs	1,027,863
Total liabilities	1,449,497
NET ASSETS	
Without donor restrictions	4,061,190
With donor restrictions	347,393
Total net assets	4,408,583
Total liabilities and net assets	\$ 5,858,080

Everett Gospel Mission

Statement of Activities

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE			
Contributions	\$ 3,660,799	\$ 119,342	3,780,141
In-kind donations	2,484,673	-	2,484,673
Government grants	825,459	-	825,459
Gain from PPP loan forgiveness	426,000	-	426,000
Bed donations	178,004	-	178,004
Rental income	88,486	-	88,486
Change in value of charitable perpetual trust	-	5,156	5,156
Investment income	716	-	716
Miscellaneous income	6,065	-	6,065
Net assets released from restrictions	684,083	(684,083)	-
Total revenue	8,354,285	(559,585)	7,794,700
EXPENSES			
Program services	6,093,770	-	6,093,770
Management and general	425,084	-	425,084
Fundraising	440,419	-	440,419
Total expenses	6,959,273	-	6,959,273
CHANGE IN NET ASSETS	1,395,012	(559,585)	835,427
NET ASSETS, beginning of year	2,666,178	906,978	3,573,156
NET ASSETS, end of year	\$ 4,061,190	\$ 347,393	4,408,583

Everett Gospel Mission
Statement of Functional Expenses
Year Ended June 30, 2021

	Program Services	Management and General	Fundraising	Total
Auto expenses	\$ 9,770	\$ 13	\$ 784	\$ 10,567
Bank charges	1,762	3,721	41,935	47,418
Bookkeeping services	-	79,365	27	79,392
Computer program support	61,093	18,712	28,967	108,772
Employee wages, benefits, and payroll taxes	849,913	189,915	273,253	1,313,081
Equipment rental and expense	32,428	10,005	81	42,514
Food (purchased and in-kind)	1,019,411	-	458	1,019,869
Fundraising fees and expenses	536,673	-	36,335	573,008
Housing and essential needs	2,072	-	-	2,072
Insurance	27,820	5,228	-	33,048
Interest	25,616	11,815	-	37,431
Men's, Women's and Shelter Program direct costs	1,086,188	5,699	7,301	1,099,188
Miscellaneous	2,693	20,986	6,649	30,328
Office, postage, and Shipping	1,435	3,296	5,363	10,094
Printing	603	455	94	1,152
Professional (purchased and in-kind)	6,044	16,832	-	22,876
Personal items (in-kind)	1,558,955	-	-	1,558,955
Training	6,103	6,470	538	13,111
Rental expenses	94,477	-	-	94,477
Repairs and maintenance	243,346	5,759	-	249,105
Supplies	171,163	2,795	227	174,185
Utilities	173,974	31,529	221	205,724
Total expenses before depreciation	5,911,539	412,595	402,233	6,726,367
Depreciation and amortization	182,231	12,489	38,186	232,906
Total expenses - 2021	<u>\$ 6,093,770</u>	<u>\$ 425,084</u>	<u>\$ 440,419</u>	<u>\$ 6,959,273</u>
Percent of total - 2021	87.56%	6.11%	6.33%	100.00%

Everett Gospel Mission

Statement of Cash Flows

	Year Ended June 30 2021
CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 835,427
Adjustments to reconcile change in net assets to net cash flows from operating activities	
Depreciation	232,906
Deferred loan cost amortization	250
Change in value of charitable perpetual trust	5,156
Gain on PPP loan	(426,000)
Change in value of donated inventory	(54,586)
Changes in operating assets and liabilities	
Grants and contracts receivable	(34,595)
Accounts receivable	(532)
Prepaid expenses	(4,143)
Accounts payable	73,616
Accrued liabilities	138,451
	<u>765,950</u>
Net cash from (used in) operating activities	<u>765,950</u>
CASH FLOWS USED IN INVESTING ACTIVITIES	
Purchases of property and equipment	<u>(330,853)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Principal payments on long-term debt	(1,087,360)
Proceeds from long-term debt	<u>1,052,286</u>
	<u>(35,074)</u>
Net cash from (used in) financing activities	<u>(35,074)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	400,023
CASH AND CASH EQUIVALENTS, beginning of year	<u>1,211,633</u>
CASH AND CASH EQUIVALENTS, end of year	<u><u>\$ 1,611,656</u></u>
SUPPLEMENTAL INFORMATION	
Cash paid for interest	<u><u>\$ 40,588</u></u>

Everett Gospel Mission Notes to the Financial Statements

Note 1 – Organization

Everett Gospel Mission (the Organization) is a nonprofit corporation established in 1961 to meet the physical and spiritual needs of the homeless and hurting in the Everett community by spreading the Gospel through rescue mission work. The majority of its financial support comes from donations from individuals and local businesses.

Note 2 – Summary of Significant Accounting Policies

Basis of accounting – The financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Basis of presentation – The financial statements are presented with the provisions of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities*. Under ASC 958, the Organization is required to report information regarding its financial position and activities in two classes of net assets:

Net Assets Without Donor Restrictions are net assets not subject to donor-imposed restrictions or law.

Net Assets with Donor Restrictions are net assets subject to donor-imposed restrictions that can be fulfilled by actions of the Organization pursuant to those restrictions or that expire by the passage of time. Contributions restricted by donors whose restrictions are met in the same reporting period are recorded as without restriction. Net assets whose use is limited by donor-imposed restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by the Organization's actions are held in perpetuity. Restrictions stipulate that resources must be maintained permanently but permit the Organization to expend the income generated in accordance with the provisions of agreements.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their uses are restricted by explicit donor stipulation or by law.

Cash and cash equivalents – Cash and cash equivalents consist of general checking, demand deposits, savings accounts, and short-term investments with original maturities of three months or less. The Organization maintains its cash and cash equivalents in bank accounts that may exceed federally insured limits at times during the year. The Organization has not experienced any losses in these accounts, and management does not believe it is exposed to any significant credit risk.

Everett Gospel Mission

Notes to the Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

Grants and contracts receivable – Grants and contracts receivable include amounts owing from service agreements and government grants and are stated at net realizable value and unsecured. Management provides for uncollectible accounts receivable through a provision for bad debt expense and an adjustment to the allowance for doubtful accounts based on its assessment of the current status of individual accounts. As of June 30, 2021, the balances are considered to be fully collectible and no allowance was recorded.

Promises to give – Unconditional promises to give are recognized as contributions in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefit received. Promises to give are recorded at net realizable value if they are expected to be collected within one year and at net present value if they are expected to be collected in more than one year. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Inventory – The Organization maintains an inventory of food and personal items which is stated at the lower of cost or net realizable value by the first-in, first-out method if purchased, or at its estimated fair value if donated.

Property and equipment – Property and equipment is stated at cost if purchased or at fair market value if donated. Depreciation is calculated on the straight-line method over the estimated useful lives as follows:

Building and improvements	7–40 years
Furniture and equipment	3–10 years

Expenditures greater than \$5,000 are capitalized. Costs of repairs and maintenance and items less than \$5,000 are expensed when incurred. Total depreciation expense for the year ended June 30, 2021 was \$232,906.

Deferred loan costs and amortization – Deferred loan costs were incurred in the mortgage refinance and are reported as a reduction of the carrying amount of the loan and are being amortized over 10 years. Total deferred loan costs were \$4,454 as of June 30, 2021. Amortization expense is included in interest expense in the statement of activities.

Revenue recognition – Government grant income consists mostly of government contracts for services. Revenue is recognized when allowable costs have been incurred under the terms and conditions of the grant. Rental income consists of transitional housing and is recognized when due from residents at Lydia House, Harrison House, and Marysville Extended Shelter Home.

Note 2 – Summary of Significant Accounting Policies (continued)

Donated goods and services – Donated food and personal items are reflected as in-kind contributions at their estimated fair value at the date of receipt.

A significant portion of the Organization's functions are conducted by unpaid volunteers. In accordance with financial accounting standards, the financial statements reflect only those donated services requiring specific expertise that the Organization would otherwise need to purchase.

Functional allocation of expenses – The financial statements report certain categories of expenses that are attributable to one or more program or supporting services of the Organization. Those expenses include wages, taxes, and related benefits which are allocated to program and supporting services categories based on related salary expense. Depreciation and interest expense is allocated based on estimated use of the related underlying asset for program and supporting services.

Use of estimates – The preparation of the financial statements in accordance with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Tax status – The Organization is a not-for-profit organization that is tax-exempt from income taxes in accordance with Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation. The Organization is located in Washington State which does not impose a state income tax. Accordingly, no provision for income taxes is shown in these statements.

The Organization has applied the provisions of the FASB's ASC 7410-10, *Accounting for Uncertainty in Income Taxes*. Under ASC 740-10, nonpublic enterprises, including nonprofit organizations, are required to record a tax liability when substantial uncertainties exist as to whether certain income is exempt from federal, state, and local income tax. As of June 30, 2021, the Organization has no substantial uncertain income tax positions. The Organization's Forms 990, Return of Organization Exempt from Income Tax, are subject to examination by the IRS, generally three years after they were filed.

Adoption of new accounting principle – In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606). This standard implements a single framework for recognition of all revenue earned from customers. This framework ensures that entities appropriately reflect the consideration to which they expect to be entitled in exchange for goods and services by allocating the transaction price to identified performance obligations and recognizing revenue as performance obligations are satisfied. The guidance was implemented by the Organization for the period June 30, 2020 to June 30, 2021. The adoption did not result in a change to how the Organization accounts for revenue.

Everett Gospel Mission

Notes to the Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

New accounting pronouncement – In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842), which requires lessees to recognize operating and financing lease liabilities and corresponding right-of-use assets on the balance sheet. The guidance is effective for the Organization during the fiscal year ending June 30, 2023. The Organization is currently evaluating the impact that this guidance will have on its financial statements.

In September 2020, the FASB issued ASU 2020-07, *Not-For-Profit Entities* (Topic 958), *Presentation and Disclosures by Not-For-Profit Entities for Contributed Nonfinancial Assets*. This standard intends to increase the transparency of contributed nonfinancial assets for not-for-profit entities through enhancements to presentation and disclosure. This guidance requires presentation of contributed nonfinancial assets as a separate line item in the statement of activities and more detailed quantitative and qualitative disclosure of the valuation of the amount recognized and monetization or utilization of these assets during the reporting period. Topic 958 is effective for the Organization for the fiscal year ending June 30, 2022. The Organization is currently evaluating the impact that this guidance will have on its financial statements.

Note 3 – Charitable Perpetual Trust Split-Interest Agreement

A perpetual trust held by a local bank was established by a donor in 1992. The split-interest agreement designated the Organization as 10% income beneficiary establishing its right to receive the greater of 10% of the annual income, or 10% of 5% of the fair market value of the trust on an annual basis. Based on the fair market value of the trust, the present value of the future benefits expected to be received by the Organization was estimated to be \$40,915 for the year ended June 30, 2021.

Note 4 – Long-Term Debt

	<u>2021</u>
Mortgage payable to Heritage Bank, payable at \$6,467 per month, including a variable interest rate of 2.2% over an independent index and maturing March 2031.	\$ 1,046,643
Note payable to the State of Washington Department of Commerce. Note carries 0% interest and is due in full September 2026.	<u>11,306</u>
	1,057,949
Less current portion	(25,632)
Less unamortized deferred loan costs	<u>(4,454)</u>
	<u>\$ 1,027,863</u>

Everett Gospel Mission
Notes to the Financial Statements

Note 4 – Long-Term Debt (continued)

Maturities of long-term debt are as follows:

2022	\$ 25,632
2023	26,650
2024	27,604
2025	28,806
2026	29,951
Thereafter	<u>919,306</u>
	<u>\$ 1,057,949</u>

Note 5 – Net Assets with Donor Restrictions

Net assets with donor restrictions as of June 30, 2021, were as follows:

Deferred loans for housing and housing improvements	\$ 187,136
Purpose or time restricted contributions	119,342
Charitable perpetual trust	<u>40,915</u>
	<u>\$ 347,393</u>

The Organization is the recipient of several grants that have mortgages recorded by the State of Washington, Snohomish County, and the City of Everett but are not required to be repaid provided that the housing remains available for the intended use in accordance with the agreements made for each grant. As long as these requirements are met and the mortgages have not otherwise become due and payable by reason of default under the mortgages or regulatory agreements, the mortgages shall be discharged on the maturity dates. It is unlikely that the mortgages will be repaid, and as such, they have been classified as net assets with donor restrictions on the Statement of Financial Position. These amounts are included in the deferred loans for housing and housing improvements line item above.

Note 6 – Retirement Plan

The Organization has adopted a 403(b) plan that covers eligible employees. Personnel who have been employed for more than one year receive a contribution of 3% of their salary. In addition, employees also receive a 100% match of elective contributions up to 3% of their salary. Contributions made for the year ended June 30, 2021, were \$44,451.

Everett Gospel Mission

Notes to the Financial Statements

Note 7 – Donated Goods and Services

The majority of the food used to feed the clients of the Organization is donated in-kind and is recorded in the financial statements at its estimated fair value of \$886,727 for the year ended June 30, 2021.

The Organization also provides clients with clothing and toiletries that are donated in-kind and recorded in the financial statements at an estimated fair value of \$1,597,946 for the year ended June 30, 2021.

Of the donated items, the estimated amounts of donations held in inventory at year end are as follows:

	<u>2021</u>
Donated food	\$ 39,856
Donated personal and household items	<u>66,617</u>
	<u>\$ 106,473</u>

Note 8 – Operating Lease

The Organization leases a copier under a five-year agreement through 2023. Under the terms of this lease, the Organization is obligated to pay a monthly rental fee of \$537 plus tax and overages. Rent was \$9,496 for the years ending June 30, 2021. Future payments under this lease are as follows for the years ended June 30:

2022	\$ 6,554
2023	<u>1,074</u>
	<u>\$ 7,628</u>

Note 9 – Liquidity Resource Management

The Organization regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Organization considers all expenditures related to its ongoing program activities as well as the conduct of services undertaken to support those activities to be general expenditures.

As of June 30, 2021, cash and cash equivalents of \$1,611,656, are financial assets that could readily be made available within one year of the statement of financial position date to meet general expenditures.

In addition to the financial assets available to meet general expenditures over the next 12 months noted above, the Organization has other current assets that will likely be converted to cash or available for general expenditures during the normal course of next year's operations. Such current assets include the Organization's accounts receivable totaling \$195,222.

Note 10 – Concentrations

Two donors supplied 77% of the Organization's in-kind food during the year ended June 30, 2021. One granting organization accounted for 61% of grants and contracts receivable at June 30, 2021.

Note 11 – COVID-19 Impact and PPP Loan

On March 11, 2020, the World Health Organization officially declared COVID-19, the disease caused by the novel coronavirus, a pandemic. Management is closely monitoring the evolution of the pandemic, including how it may affect the Organization's future performance. Management has not yet determined or quantified the potential long-term financial impact. In April 2020, the Organization was granted a loan under the Paycheck Protection Program offered by the Small Business Administration (SBA) under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), section 7(a)(36) of the Small Business Act for \$426,000. Full forgiveness for the loan was granted on June 14, 2021, by the SBA and the amount is included in Gain on PPP Loan Forgiveness on the Statement of Activities.

Note 12 – Subsequent Events

Management has evaluated subsequent events through October 25, 2022, the date on which the financial statements were available for issuance.

