

THE SOPHIA WAY

FINANCIAL REPORT

DECEMBER 31, 2018

C O N T E N T S

	Page
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
STATEMENTS OF FINANCIAL POSITION	2
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS	3
STATEMENTS OF FUNCTIONAL EXPENSES	4
STATEMENTS OF CASH FLOWS	5
NOTES TO FINANCIAL STATEMENTS	6 - 14

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
The Sophia Way
Bellevue, Washington

We have audited the accompanying financial statements of The Sophia Way ("the Organization"), a Washington nonprofit organization, which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years 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; 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. 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 Organization as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.



March 19, 2020

THE SOPHIA WAY

STATEMENTS OF FINANCIAL POSITION

December 31, 2018 and 2017

ASSETS	2018	2017
Current Assets		
Cash and cash equivalents	\$ 740,841	\$ 388,530
Investments	10,062	
Grants and pledges receivable	427,715	211,344
Contribution receivable - in-kind rent, current	31,344	32,839
Deposits and prepaid expenses	40,713	32,002
Total current assets	1,250,675	664,715
Non-Current Assets		
Property and equipment, net	463,560	497,366
Contribution receivable - in-kind rent, non-current	102,210	120,924
Total assets	\$ 1,816,445	\$ 1,283,005
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 44,183	\$ 16,558
Accrued expenses	116,309	59,510
Notes payable, current	1,500	7,414
Total current liabilities	161,992	83,482
Long-Term Liabilities		
Notes payable, non-current	9,375	10,875
Total liabilities	171,367	94,357
Net Assets		
Without donor restrictions		
Board-designated	50,000	50,000
Undesignated	616,468	907,280
	666,468	957,280
With donor restrictions	978,610	231,368
Total net assets	1,645,078	1,188,648
Total liabilities and net assets	\$ 1,816,445	\$ 1,283,005

See Note to Financial Statements

THE SOPHIA WAY

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Years Ended December 31, 2018 and 2017

	2018			2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support						
City and county grants	\$ 546,099	\$ -	\$ 546,099	\$ 507,744	\$ -	\$ 507,744
United Way grants		52,500	52,500	77,500	52,500	130,000
Foundations	198,851	153,000	351,851	195,223	15,000	210,223
Corporate and individual contributions	480,061	692,256	1,172,317	399,013	26,625	425,638
In-kind donations	280,008	25,260	305,268	431,161	27,660	458,821
Program services	8,884		8,884	13,618		13,618
Special events	216,311		216,311	123,125		123,125
Special event expenses	(108,477)		(108,477)	(15,286)		(15,286)
Net assets released from restriction	175,774	(175,774)		80,847	(80,847)	
Total revenue and support	1,797,511	747,242	2,544,753	1,812,945	40,938	1,853,883
Expenses						
Program services	1,640,509		1,640,509	1,526,571		1,526,571
General and administrative	92,358		92,358	119,592		119,592
Fundraising	355,456		355,456	146,035		146,035
Total expenses	2,088,323		2,088,323	1,792,198		1,792,198
Change in net assets	(290,812)	747,242	456,430	20,747	40,938	61,685
Net Assets, beginning of year	957,280	231,368	1,188,648	936,533	190,430	1,126,963
Net Assets, end of year	\$ 666,468	\$ 978,610	\$ 1,645,078	\$ 957,280	\$ 231,368	\$ 1,188,648

See Note to Financial Statements

THE SOPHIA WAY

STATEMENTS OF FUNCTIONAL EXPENSES For the Years Ended December 31, 2018 and 2017

	2018				2017			
	Program Services	General and Administrative	Fundraising	Total	Program Services	General and Administrative	Fundraising	Total
Salaries	\$ 799,945	\$ 24,045	\$ 222,676	\$ 1,046,666	\$ 575,479	\$ 42,576	\$ 86,142	\$ 704,197
Payroll taxes	83,735	2,517	23,309	109,561	68,650	3,435	8,154	80,239
Employee benefits	78,430	2,357	21,832	102,619	51,239	2,831	7,085	61,155
Total personnel expenses	962,110	28,919	267,817	1,258,846	695,368	48,842	101,381	845,591
Client assistance and housing	228,607		7,383	235,990	116,804			116,804
In-kind expenses	312,695	385	2,661	315,741	476,605	3,917	9,477	489,999
Office equipment and supplies	38,102	2,280	94,255	134,637	26,430	2,080	2,821	31,331
Professional fees	9,623	56,143	584	66,350	47,855	50,865	12,700	111,420
Other expenses	83		60,665	60,748	26,850	245	16,140	43,235
Depreciation and amortization	32,470	341	995	33,806	31,489	1,000		32,489
Rent	16,837	160	4,956	21,953	11,685	3,949	3,949	19,583
Staff and volunteer appreciation	14,271	3,257	2,352	19,880	3,674	924	284	4,882
Postage and delivery	1,622	50	10,903	12,575	200	200	4,588	4,988
Insurance	9,216	414	1,595	11,225	3,449	3,448	3,448	10,345
Utilities	6,842	301	1,160	8,303	48,909	1,138	1,138	51,185
Travel	7,228	24	839	8,091	35,380	1,000	500	36,880
Bad debt expense	318		7,696	8,014		1,240		1,240
Dues and subscriptions	238	9	36	283	1,439	600		2,039
Bank and PayPal service charges	139	75	36	250		144	4,895	5,039
Interest expense	108			108	434			434
Total expenses	1,640,509	92,358	463,933	2,196,800	1,526,571	119,592	161,321	1,807,484
Special event expenses			(108,477)	(108,477)			(15,286)	(15,286)
Total expenses, less special event costs	<u>\$ 1,640,509</u>	<u>\$ 92,358</u>	<u>\$ 355,456</u>	<u>\$ 2,088,323</u>	<u>\$ 1,526,571</u>	<u>\$ 119,592</u>	<u>\$ 146,035</u>	<u>\$ 1,792,198</u>

See Note to Financial Statements

THE SOPHIA WAY

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities		
Change in net assets	\$ 456,430	\$ 61,685
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation and amortization	33,806	32,489
Revenue from capital campaign	(829,556)	
(Increase) decrease in assets		
Grants and pledges receivable	613,185	(30,669)
Contributions receivable - in-kind rent	20,209	26,068
Deposits and prepaid expenses	(8,711)	(16,098)
Increase (decrease) in liabilities		
Accounts payable	27,625	(41,410)
Accrued expenses	56,799	(2,339)
	369,787	29,726
Net cash provided by operating activities		
Cash Flows from Investing Activities		
Purchase of investments	(10,062)	
Purchase of property and equipment		(1,896)
	(10,062)	(1,896)
Net cash used by investing activities		
Cash Flows from Financing Activity		
Payments on note payable	(7,414)	(24,211)
	(7,414)	(24,211)
Net increase in cash and cash equivalents	352,311	3,619
Cash and Cash Equivalents, beginning of year	388,530	384,911
Cash and Cash Equivalents, end of year	\$ 740,841	\$ 388,530

See Note to Financial Statements

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Nature of Activities

The Sophia Way ("the Organization") provides temporary shelter, food, and case management services to homeless women. This program also places residents in its temporary shelter programs into permanent housing.

The Organization was established in 2012 as a Washington nonprofit corporation and began operating on May 1, 2012. The activities prior to that date operated under the Eastside Interfaith Social Concerns Council.

The Organization, in partnership with Catholic Community Services ("CCS") and the City of Kirkland, began efforts to build a new emergency shelter in Kirkland, Washington during the year ended December 31, 2018. The Organization will operate a new 48-bed shelter, expanded Day Center, and housing support services on the second floor, while CCS will operate similar programs for families with children on the first floor. The Organization began a capital campaign in 2018 to source the remaining funding needed. CCS will build and own the facility and provide operating space for the Organization's programs through a long-term lease.

Financial Statement Presentation

The Organization reports information regarding its financial position and activities according to two classes of net assets: with donor restrictions and without donor restrictions. Contributions and certain grants that are received are recorded depending on the existence and/or nature of any donor restrictions.

Net Assets Without Donor Restrictions

Net assets without donor restrictions are free from donor-imposed restrictions. All revenues, expenses, gains, and losses that are not changes in net assets with restrictions are considered unrestricted. Any limitations on these funds are determined by the Board of Directors. At December 31, 2018 and 2017, the Board had designated \$50,000 of net assets without donor restrictions as an operating reserve.

Net Assets with Donor Restrictions

Net assets with donor restrictions consist of unexpended contributions restricted for particular purposes or time periods. Net assets with donor restrictions are transferred to net assets without donor restrictions as expenditures are incurred for the restricted purpose or as time restrictions are met. Net assets with donor restrictions consist of the following at December 31:

	<u>2018</u>	<u>2017</u>
Purpose-restricted		
Day Center	\$ 15,000	\$ 15,000
The Roscoe Housing Project		9,605
Building Capacity	500	500
Capital Campaign	829,556	
Time-restricted		
Contributed rent	133,554	153,763
United Way		52,500
Total	<u>\$ 978,610</u>	<u>\$ 231,368</u>

Value of Services

Participating faith communities in the temporary shelter program furnish, on a daily basis, temporary housing in their own facilities, and volunteers help provide meals. The value of these services, which are furnished free of charge, are not reflected in these financial statements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimated amounts.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Organization considers all short-term debt securities purchased with a maturity of three months or less to be cash and cash equivalents. Cash balances may periodically exceed federally insured limits.

Fair Value Measurements

Fair value is a market-based measurement determined based on assumptions that market participants would use in pricing an asset or liability. There are three levels that prioritize the inputs used in measuring fair value as follows:

- Level 1: Observable market inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Observable market inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3: Unobservable inputs where there is little or no market data, which require the reporting entity to develop its own assumptions.

An asset's or liability's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Investments consist of three common stock holdings are stated at fair value and using Level 1 inputs consisting of quoted prices on national exchanges. Realized and unrealized gains and losses are included in the change in net assets.

Property and Equipment

Property and equipment additions are stated at cost if purchased, and at appraised values if acquired by gift. Major expenditures for property and those that substantially increase useful lives are capitalized. Maintenance, repairs, and minor renewals are expensed as incurred. Depreciation and amortization are computed on the straight-line method over the estimated useful lives or the shorter of the lease term for leasehold improvements.

Support and Revenue Recognition

Gifts and contributions are recognized as revenue when the pledge is made. Contributions are considered to be available for as net assets without donor restrictions use unless specifically restricted by the donor. Contributions with donor restrictions are segregated for accounting purposes in order to ensure compliance with the donor's wishes. Board members, related organizations, and employees of the Organization contributed \$233,452 and \$50,356 during the years ended December 31, 2018 and 2017, respectively.

Grant revenue contracts stipulate specific conditions that need to be met in the current year to be eligible for the remainder of the grant funds. Accordingly, revenues are not recognized until condition of the grant is met or the likelihood of having to return collected funds is remote.

Functional Expenses

The Organization follows the policy of charging identifiable expenses directly to program services. Occupancy expenses are allocated based on the percentage of space used. Expenses of a general nature are allocated to administrative and fundraising based on the basis of time and effort exerted by Organization personnel, and management's evaluation and judgment.

Income Taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

Recent Accounting Pronouncement Adopted

During the year ended December 31, 2018, the Organization adopted the provisions of Accounting Standards Update ("ASU") No. 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classifications, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented, except for the liquidity and availability note (see Note 2).

Reclassifications

Certain amounts in the prior-year financial statements have been reclassified to conform to the current-year presentation.

Subsequent Events

The Organization has evaluated subsequent events through the date these financial statements were available to be issued, which was March 19, 2020.

Note 2. Liquidity and Availability of Resources

The Organization strives to maintain liquid financial assets sufficient to cover 90 days of general expenditures. General expenditures include costs to run programs, fundraise, and meet other contractual obligations. Financial assets in excess of daily cash requirements are kept in an interest-bearing savings account.

The following table reflects the Organization’s financial assets as of December 31, 2018, reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date because of contractual restrictions or internal board designations. Amounts not available include a board-designated reserve fund for general operational expenses, and funds designated for emergency repairs at the Sophia’s Place shelter per contractual agreement. In the event the need arises to utilize the board-designated funds for liquidity purposes, the reserves could be drawn upon through board resolution. Amounts not available to meet general expenditures within one year also includes net assets with donor restrictions not expected to be met within one year of the statement of financial position date.

Financial assets at year-end	
Cash and cash equivalents	\$ 740,841
Investments	10,062
Grants and pledges receivable	427,715
	<hr/>
	1,178,618
Board-designated reserve	(50,000)
ARC reserves for Sophia's Place	(20,000)
Donor restricted for time or purpose	(829,556)
	<hr/>
Total	<u>\$ 279,062</u>

Note 3. Government Grants

The Organization receives funding from King County for rental assistance, case management, client assistance, and reduced rate bus fare for clients. The grants are through March 31, 2020, for rental assistance, through December 31, 2020, for case management and supportive services, and through December 31, 2020, for client assistance. Reimbursements for all grants for services provided and actual expenses incurred are made on a monthly basis. At December 31, 2018 and 2017, grants and accounts receivable related to these King County grants amounted to \$55,118 and \$43,987, respectively. Total grant revenue for these grants was \$249,891 and \$259,950 for the years ended December 31, 2018 and 2017, respectively.

The Organization also receives grant funding from pooled cities contracts (cities of Bellevue, Kirkland, Redmond, and Issaquah) for Eastside Winter Shelter, Sophia's Home, Sophia's Place, and the Day Center. At December 31, 2018 and 2017, grants and accounts receivable related to these contracts amounted to \$64,597 and \$70,466, respectively. Grant revenue for these contracts totaled \$278,596 and \$247,794 for the years ended December 31, 2018 and 2017, respectively.

Note 4. Receivables

Receivables are carried at their awarded amount less allowance for uncollectible accounts. A receivable is considered to be past due if it is outstanding for more than 90 days.

As of December 31, 2018 and 2017, all receivables are due within one year. The Organization maintains an allowance for potential losses based upon management's periodic review of the Organization's experience related to pledges and other collections. Receivables written off are charged against the allowance. As of December 31, 2018 and 2017, management has determined that no allowance for doubtful accounts was deemed necessary.

Receivables due from the two government funding sources and three organizations represent 80% of total receivables as of December 31, 2018. Receivables due from the two government funding sources and one organization represented 83% of total receivables as of December 31, 2017.

Note 5. Rent Contribution Receivable

The Organization has various leases under which the rental terms of the leases (see Note 8) are at a rate below market. Accordingly, the Organization recognized a contribution when the lease was signed. The contribution receivable represents the fair value contributed to the Organization in excess of the actual rent to be paid. The receivable represents the entire contribution over the remaining term of the leases. The full amount of the contributed rent to be received was \$133,554 and \$153,763 at December 31, 2018 and 2017, respectively.

The amounts are to be recognized as follows in the years ending December 31:

2019	\$	31,344
2020		18,413
2021		18,105
2022		17,792
2023		17,472
Thereafter		30,428
	\$	<u>133,554</u>

Rent contribution receivable is recorded in the statements of financial position as follows at December 31:

	2018	2017
Contribution receivable - in-kind rent, current	\$ 31,344	\$ 32,839
Contribution receivable - in-kind rent, non-current	102,210	120,924
	<u>\$ 133,554</u>	<u>\$ 153,763</u>

Note 6. Property and Equipment

Property and equipment consist of the following at December 31:

	2018	2017
Furniture and equipment	\$ 6,893	\$ 6,893
Leasehold improvements	660,919	660,919
Total cost	667,812	667,812
Less: accumulated depreciation and amortization	(204,252)	(170,446)
Net property and equipment	<u>\$ 463,560</u>	<u>\$ 497,366</u>

Note 7. Notes Payable

The Organization converted a trade account payable with a contractor to a long-term note payable in 2013. The balance on the date of conversion was \$111,288. The note has both interest-bearing and non-interest-bearing portions. At the time of conversion, \$66,288 of the note was interest-bearing and \$45,000 was non-interest-bearing. The interest-bearing portion requires quarterly payments of \$3,536 including interest at 2.5%, and the non-interest-bearing portion requires quarterly principal-only payments of \$2,250 through January 1, 2018. The balance of the interest-bearing portion of the note was \$3,664 at December 31, 2017. The balance of the non-interest-bearing portion of the note was \$2,250 at December 31, 2017. The note was paid in full during the year ended December 31, 2018.

During 2016, the Organization entered into a non-interest-bearing loan of \$15,000 with its landlord to pay for leasehold improvements to its office space. The loan requires monthly principal-only payments of \$125 through April 1, 2026. The balance of the note was \$10,875 and \$12,375 at December 31, 2018 and 2017, respectively.

Future maturities of notes payable are as follows for the years ending December 31:

2019	\$ 1,500
2020	1,500
2021	1,500
2022	1,500
2023	1,500
Thereafter	3,375
	<u>\$ 10,875</u>

Notes payable are recorded in the statements of financial position as follows at December 31:

	2018	2017
Notes payable, current	\$ 1,500	\$ 7,414
Notes payable, non-current	9,375	10,875
	\$ 10,875	\$ 18,289

Interest expense was \$108 and \$434 for the years ended December 31, 2018 and 2017, respectively.

Note 8. Leases

In April 2016, the Organization signed a 10-year lease for office space at \$1,184 per month with payments increasing by 2% annually each January 1. The Organization entered into a lease in 2012 with St. Luke's Shelter to run its shelter and has annual payments of \$100 for 15 years, but is required to pay all improvements to the premises, which it completed in 2012.

In addition, the Organization entered into a lease in 2015 with East Shore Unitarian Church to run its shelter, which was renewed during the year through December 31, 2019, with rent of \$1,600 per month.

The Organization signed a new lease for a copier in September 2015. The lease expires in September 2020 and has monthly payments of \$437.

Rent expense for the year ended December 31, 2018 and 2017, amounted to \$21,953 and \$19,583, respectively.

Future minimum lease payments required for all leases are as follows for the years ending December 31:

2019	\$ 49,929
2020	29,283
2021	26,094
2022	26,407
2023	26,727
Thereafter	61,286
	\$ 219,726

Note 9. Retirement Plan

Effective July 1, 2007, the Organization established a SIMPLE (Savings Incentive Match Plan for Employees) retirement plan under Section 408(p) of the Internal Revenue Code. Under the plan, employees are eligible to receive contributions of 3% of compensation from the Organization. Employer contributions were \$2,007 and \$3,042 for the years ended December 31, 2018 and 2017, respectively.

Note 10. Donated Assets and Services

Donated assets are reflected as contributions in the accompanying statements of activities at their estimated fair values at date of receipt. Donated services are only recorded in the financial statements when appropriate accounting criteria for recognition is met. The following items were included in expenses for the years ended December 31:

	2018	2017
Meals	\$ 164,250	\$ 115,420
Rent	45,469	78,728
Clothing and supplies	3,257	247,264
Medical services		43,027
Miscellaneous	102,765	5,560
	<u>\$ 315,741</u>	<u>\$ 489,999</u>