THE SOPHIA WAY

FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITORS' REPORT

DECEMBER 31, 2019

Jones & Associates PLLC
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
The Sophia Way
Bellevue, Washington

We have audited the accompanying financial statements of The Sophia Way (a nonprofit organization), which comprise the statement of financial position as of December 31, 2019, and the related statements 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.

Auditors' 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 Sophia Way as of December 31, 2019, 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.

Jones & Associates PLLC, CPAs

Jones & Associates PLLC, CPAs
January 21, 2021

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THE SOPHIA WAY
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2019

ASSETS	
Cash and cash equivalents	$ 571,828
Investments	19,651
Accounts receivable	275,966
Pledges receivable, current	903,926
Contributed facility receivable, current	39,701
Other prepaid expenses	15,713
Total current assets	1,826,785
Cash and cash equivalents - restricted for capital campaign	123,923
Cash and cash equivalents - restricted for long term purposes	20,000
Pledges receivable, net of current	66,667
Contributed facility receivable, net of current portion	187,357
Prepaid rent	494,715
Property and equipment, net	485,890
	$ 3,205,337
LIABILITIES AND NET ASSETS	
LIABILITIES	
Accounts payable	$ 71,999
Accrued expenses	188,025
Note payable, current	1,500
Total current liabilities	261,524
Note payable, long-term	7,875
Line of credit	36,253
Total liabilities	305,652
NET ASSETS	
Without donor restrictions	
Undesignated	1,317,524
Board designated	50,000
	1,367,524
With donor restrictions	1,532,161
Total net assets	2,899,685
	$ 3,205,337

See accompanying notes to financial statements.

THE SOPHIA WAY
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2019

	Without Donor Restrictions			
	Undesignated	Board Designated	With Donor Restrictions	Total
SUPPORT AND REVENUE				
Government grants	$ 712,711	$ -	$ -	$ 712,711
Contributions	2,015,940	-	610,297	2,626,237
In-kind contributions	330,679	-	25,911	356,590
Program service revenue	13,778	-	-	13,778
Investment return and other	5,057	-	-	5,057
	3,078,165	-	636,208	3,714,373
Net asset releases/transfers:				
Purpose restrictions met	15,500	-	(15,500)	-
Time restrictions met	221,359	-	(221,359)	-
	236,859	-	(236,859)	-
Total support and revenue	3,315,024	-	399,349	3,714,373
EXPENSES				
Program services	1,981,138	-	-	1,981,138
Management and general	272,783	-	-	272,783
Fundraising	404,873	-	-	404,873
Total expenses	2,658,794	-	-	2,658,794
CHANGE IN NET ASSETS	656,230	-	399,349	1,055,579
NET ASSETS				
Beginning of the year	661,294	50,000	1,132,812	1,844,106
End of the year	$ 1,317,524	$ 50,000	$ 1,532,161	$ 2,899,685

THE SOPHIA WAY
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2019

	Program Services					Support Services		
	Emergency Womens Shelter	Day Center	Sophia's Place	Other Program Services	Total	Management and General	Fundraising	Total
Salaries	$ 218,368	$ 189,727	$ 210,716	$ 289,991	$ 908,802	$ 93,182	$ 173,002	$ 1,174,986
Payroll taxes	25,176	21,875	24,308	33,435	104,794	10,741	18,778	134,313
Employee benefits	15,948	13,866	15,498	30,020	75,332	7,721	12,661	95,714
Total payroll and related	259,492	225,468	250,522	353,446	1,088,928	111,644	204,441	1,405,013
In-kind	64,475	60,758	63,705	238,176	427,114	1,497	1,871	430,482
Professional fees	14,328	11,490	16,240	13,397	55,455	127,403	97,683	280,541
Client assistance and housing	30,373	17,119	16,957	143,211	207,660	-	-	207,660
Events	-	-	-	-	-	-	65,807	65,807
Utilities	14,683	17,384	17,471	7,667	57,205	699	1,397	59,301
Office	4,543	5,737	5,879	6,946	23,105	18,129	10,836	52,070
Information technology	6,599	6,163	6,625	16,321	35,708	3,857	11,271	50,836
Rent	4,372	3,781	4,018	24,990	37,161	1,891	3,613	42,665
Depreciation and amortization	614	531	19,740	814	21,699	266	531	22,496
Travel	552	531	2,210	6,243	9,536	485	775	10,796
Insurance	1,810	1,565	1,663	2,397	7,435	783	1,565	9,783
Other	2,574	68	99	306	3,047	443	1,640	5,130
Postage and delivery	1,716	114	66	65	1,961	176	2,851	4,988
Staff and volunteer appreciation	314	345	292	384	1,335	2,976	184	4,495
Interest	410	355	377	543	1,685	1,208	355	3,248
Dues and subscriptions	61	53	56	1,934	2,104	26	53	2,183
Bank fees	-	-	-	-	-	1,300	-	1,300
Total expenses	$ 406,916	$ 351,462	$ 405,920	$ 816,840	$ 1,981,138	$ 272,783	$ 404,873	$ 2,658,794

THE SOPHIA WAY
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2019

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from contributions and grants	$ 2,520,104
Cash received from program service revenue	13,778
Cash received from interest income	3,046
Cash paid to employees and suppliers	(2,589,193)
	(52,265)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of investments	(7,578)
	(7,578)
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from line of credit	36,253
Principal payments on note payable	(1,500)
	34,753
NET CHANGE IN CASH AND CASH EQUIVALENTS	(25,090)
CASH AND CASH EQUIVALENTS	
Beginning of the year	740,841
End of the year, including restricted	715,751
Less restricted cash and cash equivalents held for long term purposes	(20,000)
Less restricted cash and cash equivalents held for capital campaign	(123,923)
End of the year	$ 571,828

Note 1 – Nature of Activities and 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.

Basis of Accounting and Presentation – The financial statements have been prepared on the accrual basis of accounting and report information regarding the Organization's financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net Assets With Donor Restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. There are no donor-restricted net assets of perpetual nature at December 31, 2019.

Cash and Cash Equivalents – For purposes of the statement of cash flows, the Organization considers all checking and savings accounts and unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents. At times bank balances exceed the federally insured limit. Management has not experienced any losses related to this risk in the past. Management believes that any potential losses related to this risk are not significant.

Investments – The Organization carries investments with readily determinable fair values at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets in the accompanying statement of activities.

Fair Value Measurements – Fair value is defined as the price received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Accounting standards establish a hierarchy for measuring fair value that gives the highest priority to unadjusted quoted prices in active markets (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are as follows:

Level 1 Unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 Quoted prices for similar assets or liabilities in active markets, quoted prices for identical assets or liabilities in inactive markets, or other inputs that can be corroborated by observable market data.

Note 1 – Nature of Activities and Summary of Significant Accounting Policies (continued)

Level 3 Inputs that are not observable that reflect management's assumptions and estimates.

Fair value measurements apply to the Organization's investments in equity mutual funds, which are classified within Level 1 of the fair value hierarchy.

Accounts Receivable – Accounts receivable represent amounts due from various organizations and government agency grants. Receivables are stated at the amount management expects to collect from the outstanding balances and are due within one year. All receivables are unsecured. No allowance for uncollectible balances for accounts receivable has been established by management based on the Organization's historical experience in the collection of balances due.

Pledges Receivable – Pledges receivable are unconditional promises to give from donors. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in more than one year are discounted to the present value of estimated cash flows. Management determined that the net realizable value of long-term pledges approximated the present value of estimated cash flows, and as such no discount was recorded as of December 31, 2019. Management has not established an allowance for uncollectible balances based upon the Organization's historical experience in the collection of balances due.

Property and Equipment – Property and equipment is carried at cost. Depreciation is computed using the straight-line method over a period of five to thirty years for leasehold improvements. The Organization follows a policy whereby it capitalizes purchases of property and equipment over $2,500 which provide future benefits over a period longer than one year.

Revenue Recognition – Government grants are recognized when the qualified expenditure is incurred and are subject to audit and retroactive adjustment made by the funding agencies. The adjustments would be recorded at the time that such amounts can first be reasonably determined, normally upon notification by the government agency. There were no adjustments resulting from government audits during the year ended December 31, 2019.

Contributions are recorded as increases in net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of donor or grantor restrictions. When a restriction expires, that is when a purpose or time restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. It is the Organization's policy to recognize restricted contributions in the net assets without donor restrictions class if the restrictions have been met in the same year.

Program service revenue consists of rental income for transitional housing offered at Holly House. Revenue is recognized when control of these services is transferred to its clients, in an amount that reflects the consideration the Organization expects to be entitled to in exchange for the services provided.

Note 1 – Nature of Activities and Summary of Significant Accounting Policies (continued)

Rental income may give rise to performance obligations for the Organization. Rental income with performance obligations is recognized when the Organization satisfies a performance obligation by transferring a promised good or service to a client over time. Rental income does not have a significant financing component, and the consideration amount is not variable. Payment is typically due in full at the beginning of each month and revenue is recognized in the period in which the service is rendered.

Donated Goods and Services – The Organization receives donations of meals, clothing, services and other supplies for its shelters and programs. These amounts are recognized as support at their estimated fair value on the date of receipt.

The Organization calculates an estimated value for donated meals equal to one meal per day per client per program (approximately $150) for each day of the year less food purchased. This method was applied consistently, and the estimated fair value was not expected to be materially different from that determined using a more detailed measurement of the donation's fair value.

The Organization recognizes donated services if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provide by individuals possessing those skills and would typically need to be purchased if not donated. Participating faith communities in the temporary shelter program furnish temporary housing in their own facilities on a daily basis, and volunteers help provide meals. The value of these services, which are provided free of charge, are not reflected in these financial statements.

Expense Allocation – The statement of functional expenses presents expenses by function and natural classification. Certain categories of expenses are attributed to more than one program or supporting function and have been allocated among the programs and supporting services benefited. The Organization follows the policy of charging identifiable expenses directly to program services. Occupancy expenses are allocated based on the percentage of space and resources 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.

Estimates – Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Income Tax Status – The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vi) and has been classified as an organization other than a private foundation under Section 509(a)(1).

Note 1 – Nature of Activities and Summary of Significant Accounting Policies (continued)

New Accounting Pronouncements – The Financial Accounting Standards Board (FASB) issued two Accounting Standard Updates (ASUs) that will affect the Organization's revenue recognition.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09, and all subsequently-issued clarifying ASUs, replaced most existing revenue recognition guidance in accounting principles generally accepted in the United States of America (U.S. GAAP). ASU 2014-09 also required expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The Organization adopted ASU 2014-09 effective January 1, 2019, using the modified retrospective approach. There was no cumulative effect from the initial application recognized as an adjustment to opening net assets as a result of the adoption, and the adoption did not have a significant impact on the financial statements for the year ended December 31, 2019.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made,* which provides guidance in evaluating whether transactions should be accounted for as nonexchange or exchange transactions. In addition, ASU 2018-08 provides guidance for the identification and recognition of conditional nonexchange transactions. The Organization adopted ASU 2018-08 effective January 1, 2019, using the modified prospective approach. The adoption did not have a significant impact on the financial statements for the year ended December 31, 2019.

Note 2 – Liquidity and Availability

Financial assets available for general expenditure within one year of the statement of financial position date are as follows at December 31, 2019:

Financial Assets	
Cash and cash equivalents	$ 715,751
Investments	19,651
Accounts receivable	275,966
Pledges receivable	970,593
Total financial assets	1,981,961
Less those unavailable for general expenditure within one year:	
Restricted by donors with purpose restrictions	(1,230,353)
Restricted by grantor with purpose restrictions in order to receive funding	(20,000)
Board designated net assets	(50,000)
Financial assets available within one year	$ 681,608

Note 2 – Liquidity and Availability (continued)

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. 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.

Note 3 – Investments

The Organization's investments consist of the following at December 31, 2019:

Equity mutual funds	$ 19,651

Note 4 – Conditional Grants

As of December 31, 2019, the Organization has received notice of eight multi-year government grant awards totaling $1,599,301, of which $175,886 was recognized before December 31, 2019 and $712,711 was recognized in the year ended December 31, 2019. The remainder of these awards, totaling $710,704, will be received in subsequent years, contingent on the Organization's completion of terms and conditions set forth in the grant agreements. As the remainder represents conditional promises to give, these portions of the awards will not be recognized as revenue until the grantor conditions are met.

Note 5 – Contributed Facility Receivable

In April 2016, the Organization entered into an office space lease which expires in March 2026. The lease calls for monthly payments significantly lower than the market price. The Organization considers the difference between what is paid and the market rate of this lease to be a contribution receivable. The difference expected to be recognized in more than one year has been discounted to the present value of estimated amounts recognized. The Organization uses a discount rate of 2% to calculate the present value of the contribution facility receivable to be recognized in more than one year.

Note 5 – Contributed Facility Receivable (continued)

The facility contribution receivable is to be received as follows at December 31, 2019:

Less than one year	$	39,701
One to five years		203,205
		242,906
Less discount on long term receivable		(15,848)
	$	227,058

Note 6 – Property and Equipment

Property and equipment consists of the following at December 31, 2019:

Leasehold improvements	$	660,919
Less accumulated depreciation		(175,029)
	$	485,890

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 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.

Note 7 – Note Payable

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 $9,375 at December 31, 2019.

Note 7 – Note Payable (continued)

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

2020	$	1,500
2021		1,500
2022		1,500
2023		1,500
2024		1,500
Thereafter		1,875
	$	9,375

Note 8 – Line of Credit

In March 2019, the Organization entered into a line of credit agreement with a bank for a principal amount of $100,000 with a maturity date of March 15, 2022. The line of credit bears interest at 2.0% plus the U.S. Prime Rate, less a 1.0% Preferred Rate Reduction. The interest rate at December 31, 2019 was 5.5%. Monthly interest-only payments are required, and the outstanding principal balance plus any unpaid interest is due in full on the maturity date. The line of credit is secured by accounts and equipment of the Organization identified in the Commercial Security Agreement. The line of credit had an outstanding balance of $36,253 as of December 31, 2019.

Note 9 – Net Assets with Donor Restrictions

Net assets with donor restrictions consist of the following at December 31, 2019:

Capital campaign	$	1,230,353
Contributed facility receivable		227,058
Other time restricted		74,750
	$	1,532,161

Note 10 – Commitments

In April 2016, the Organization signed a ten-year lease for office space at $1,184 per month with payments increasing by 2% annually each January 1, which expires in March 2026.

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. The lease expires in June 2027.

Note 10 – Commitments (continued)

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

2020	$ 15,379
2021	15,687
2022	16,001
2023	16,321
2024	16,647
Thereafter	21,310
	$ 101,345

The Organization entered into a sublease agreement with CCS in June 2019 which expires in December 2059. The Organization will not be charged monthly rent for use of the facility. In accordance with the sublease agreement, the Organization made a $500,000 leasehold improvement payment to CCS upon the effective date, and will make additional payments totaling $200,000 in 2020. This is recorded as prepaid rent in the statement of financial position as of December 31, 2019 and will be amortized to rent expense over the lease term beginning on the move-in date. As disclosed in Note 14, the facility opened in August 2020, and as such $5,285 is included in current other prepaid expenses and $494,715 is included as long-term prepaid rent.

Note 11 – Donated Goods and Services

The following goods and services were donated for program activities during the year ended December 31, 2019:

Meals and food	$ 163,151
Clothing and toiletries	113,978
Use of facilities	25,911
Equipment	24,250
Other donated goods	14,584
Household items	11,216
Professional services	3,500
	$ 356,590

Note 12 – Concentrations

As of December 31, 2019, 68% of accounts receivable was due from one government agency.

As of December 31, 2019, 45% of pledges receivable was due from one donor.

For the year ended December 31, 2019, 52% of government contracts was received from one agency.

For the year ended December 31, 2019, 38% of contributions was received from one donor.

Note 13 – 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 $2,880 for the year ended December 31, 2019.

Note 14 – Subsequent Events

Subsequent events were evaluated through January 21, 2021, which is the date the financial statements were available to be issued.

In December 2019, a novel strain of coronavirus (COVID-19) was reported in Wuhan, China. On March 11, 2020, the World Health Organization declared the outbreak to be a global pandemic. The resulting economic crisis has created significant need in the local community for services offered by the Organization and similar agencies.

As a result of the pandemic, the Organization moved its annual fall fundraiser in 2020 to a full virtual model. Further, the Organization incurred additional salaries expense to pay employees overtime while operating programs 24/7 and incurred additional expenses for more food, protective equipment, and other supplies to continue operating during the pandemic. The Organization continues to fulfill the increased demand and expects for its financial position to remain strong as local donors and government authorities provide additional funding needed to help the Organization address the crisis.

In April 2020, the Organization received a $256,000 Paycheck Protection Program loan through the Small Business Administration as part of the CARES Act. The Organization expects to meet qualifications to have the full loan amount forgiven.

As discussed in Note 6, the Organization, in partnership with Catholic Community Services (CCS) and the City of Kirkland, opened the new emergency shelter in Kirkland, Washington in August 2020. The Organization operates a new 48-bed shelter, expanded Day Center, and housing support services on the second floor, while CCS operates similar programs for families with children on the first floor.