

THE SOPHIA WAY
FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITORS' REPORT
DECEMBER 31, 2020 AND 2019



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 statements of financial position as of December 31, 2020 and 2019, and the related statements of activities, 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 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 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 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, 2020 and 2019, 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 of America.

A handwritten signature in cursive script that reads "Jones & Associates PLLC, CPAs".

Jones & Associates PLLC, CPAs
July 28, 2021

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THE SOPHIA WAY
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2020 AND 2019

	2020	2019
ASSETS		
Cash and cash equivalents	\$ 995,693	\$ 571,828
Investments	-	19,651
Accounts receivable	487,912	275,966
Pledges receivable, current	198,891	903,926
Contributed facility receivable, current	39,393	39,701
Other prepaid expenses	16,704	15,713
Total current assets	1,738,593	1,826,785
Cash and cash equivalents - restricted for capital campaign	124,379	123,923
Cash and cash equivalents - restricted for long term purposes	-	20,000
Pledges receivable, net of current	20,000	66,667
Contributed facility receivable, net of current portion	147,964	187,357
Prepaid rent	-	494,715
Property and equipment, net	1,205,814	485,890
	\$ 3,236,750	\$ 3,205,337
 LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 67,298	\$ 71,999
Accrued expenses	56,181	188,025
Note payable, current	1,500	1,500
Forgivable note payable	256,000	-
Total current liabilities	380,979	261,524
Note payable, long-term	6,375	7,875
Line of credit	-	36,253
Total liabilities	387,354	305,652
 NET ASSETS		
Without donor restrictions		
Undesignated	2,352,101	1,317,524
Board designated	50,000	50,000
	2,402,101	1,367,524
With donor restrictions		
Total net assets	447,295	1,532,161
	2,849,396	2,899,685
	\$ 3,236,750	\$ 3,205,337

THE SOPHIA WAY
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2020

	<u>Without Donor Restrictions</u>		<u>With Donor Restrictions</u>	<u>Total</u>
	<u>Undesignated</u>	<u>Board Designated</u>		
SUPPORT AND REVENUE				
Contributions	\$ 1,394,082	\$ -	\$ 179,652	\$ 1,573,734
Government grants	1,654,145	-	-	1,654,145
In-kind contributions	497,331	-	-	497,331
Program service revenue	450	-	-	450
Investment return and other	4,249	-	-	4,249
	<u>3,550,257</u>	<u>-</u>	<u>179,652</u>	<u>3,729,909</u>
Net asset releases/transfers:				
Purpose restrictions met	1,150,067	-	(1,150,067)	-
Time restrictions met	114,451	-	(114,451)	-
	<u>1,264,518</u>	<u>-</u>	<u>(1,264,518)</u>	<u>-</u>
 Total support and revenue	 <u>4,814,775</u>	 <u>-</u>	 <u>(1,084,866)</u>	 <u>3,729,909</u>
 EXPENSES				
Program services	2,737,025	-	-	2,737,025
Management and general	578,070	-	-	578,070
Fundraising	465,103	-	-	465,103
Total expenses	<u>3,780,198</u>	<u>-</u>	<u>-</u>	<u>3,780,198</u>
 CHANGE IN NET ASSETS	 1,034,577	 -	 (1,084,866)	 (50,289)
 NET ASSETS				
Beginning of the year	<u>1,317,524</u>	<u>50,000</u>	<u>1,532,161</u>	<u>2,899,685</u>
End of the year	<u>\$ 2,352,101</u>	<u>\$ 50,000</u>	<u>\$ 447,295</u>	<u>\$ 2,849,396</u>

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

	<u>Without Donor Restrictions</u>		With Donor Restrictions	Total
	<u>Undesignated</u>	Board <u>Designated</u>		
SUPPORT AND REVENUE				
Contributions	\$ 2,015,940	\$ -	\$ 610,297	\$ 2,626,237
Government grants	712,711	-	-	712,711
In-kind contributions	330,679	-	25,911	356,590
Program service revenue	13,778	-	-	13,778
Investment return and other	5,057	-	-	5,057
	<u>3,078,165</u>	<u>-</u>	<u>636,208</u>	<u>3,714,373</u>
Net asset releases/transfers:				
Purpose restrictions met	15,500	-	(15,500)	-
Time restrictions met	221,359	-	(221,359)	-
	<u>236,859</u>	<u>-</u>	<u>(236,859)</u>	<u>-</u>
 Total support and revenue	 <u>3,315,024</u>	 <u>-</u>	 <u>399,349</u>	 <u>3,714,373</u>
 EXPENSES				
Program services	1,941,136	-	-	1,941,136
Management and general	312,785	-	-	312,785
Fundraising	404,873	-	-	404,873
Total expenses	<u>2,658,794</u>	<u>-</u>	<u>-</u>	<u>2,658,794</u>
 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	<u>\$ 1,317,524</u>	<u>\$ 50,000</u>	<u>\$ 1,532,161</u>	<u>\$ 2,899,685</u>

THE SOPHIA WAY
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2020

	Program Services				Support Services			
	Helen's Place	Day Center	Sophia's Place	Other Program Services	Total	Management and General	Fundraising	Total
Salaries	\$ 453,772	\$ 287,870	\$ 249,425	\$ 224,071	\$ 1,215,138	\$ 276,406	\$ 212,979	\$ 1,704,523
Payroll taxes	28,683	28,683	28,683	28,683	114,732	23,391	17,443	155,566
Employee benefits	25,328	25,328	25,328	25,328	101,312	28,037	21,048	150,397
Total payroll and related	507,783	341,881	303,436	278,082	1,431,182	327,834	251,470	2,010,486
In-kind	135,072	149,676	80,058	59,628	424,434	62,159	50,440	537,033
Rent	-	-	106,461	232,123	338,584	22,142	-	360,726
Client assistance and housing	28,130	9,580	58,647	191,564	287,921	-	-	287,921
Professional fees	60,501	31,303	24,800	21,598	138,202	59,837	74,938	272,977
Office	63	247	9,458	10,474	20,242	71,176	48	91,466
Utilities	9,489	8,844	12,575	17,271	48,179	9,809	-	57,988
Other	-	-	-	-	-	12,546	29,052	41,598
Fundraising	-	-	-	-	-	-	33,973	33,973
Depreciation and amortization	6,450	-	20,248	3,321	30,019	-	-	30,019
Information technology	878	-	1,595	557	3,030	3,857	11,053	17,940
Insurance	2,115	2,115	2,115	2,115	8,460	2,115	2,115	12,690
Postage and delivery	-	-	16	55	71	-	11,489	11,560
Travel	629	40	319	4,690	5,678	855	32	6,565
Dues and subscriptions	-	-	-	-	-	3,456	-	3,456
Staff and volunteer appreciation	112	-	233	678	1,023	1,326	493	2,842
Bank fees	-	-	-	-	-	741	-	741
Interest	-	-	-	-	-	217	-	217
Total expenses	<u>\$ 751,222</u>	<u>\$ 543,686</u>	<u>\$ 619,961</u>	<u>\$ 822,156</u>	<u>\$ 2,737,025</u>	<u>\$ 578,070</u>	<u>\$ 465,103</u>	<u>\$ 3,780,198</u>

See accompanying notes to financial statements.

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

	Program Services				Support Services			
	Emergency		Sophia's Place	Other		Management and		Total
	Womens Shelter	Day Center		Program Services	Total	General	Fundraising	
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	198,174	387,112	41,499	1,871	430,482
Rent	4,372	3,781	4,018	24,990	37,161	1,891	3,613	42,665
Client assistance and housing	30,373	17,119	16,957	143,211	207,660	-	-	207,660
Professional fees	14,328	11,490	16,240	13,397	55,455	127,403	97,683	280,541
Office	9,549	9,672	9,847	13,642	42,710	21,598	21,331	85,639
Utilities	14,683	17,384	17,471	7,667	57,205	699	1,397	59,301
Other	2,574	68	99	306	3,047	443	1,640	5,130
Fundraising	-	-	-	-	-	-	65,807	65,807
Depreciation and amortization	614	531	19,740	814	21,699	266	531	22,496
Information technology	1,593	2,228	2,657	9,625	16,103	388	776	17,267
Insurance	1,810	1,565	1,663	2,397	7,435	783	1,565	9,783
Postage and delivery	1,716	114	66	65	1,961	176	2,851	4,988
Travel	552	531	2,210	6,243	9,536	485	775	10,796
Dues and subscriptions	61	53	56	1,934	2,104	26	53	2,183
Staff and volunteer appreciation	314	345	292	384	1,335	2,976	184	4,495
Bank fees	-	-	-	-	-	1,300	-	1,300
Interest	410	355	377	543	1,685	1,208	355	3,248
Total expenses	<u>\$ 406,916</u>	<u>\$ 351,462</u>	<u>\$ 405,920</u>	<u>\$ 776,838</u>	<u>\$ 1,941,136</u>	<u>\$ 312,785</u>	<u>\$ 404,873</u>	<u>\$ 2,658,794</u>

See accompanying notes to financial statements.

**THE SOPHIA WAY
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2020 AND 2019**

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from contributions and grants	\$ 3,767,635	\$ 2,520,104
Cash received from program service revenue	450	13,778
Cash received from interest income	4,249	3,046
Cash paid for client assistance and housing	(285,964)	(202,066)
Cash paid to employees and suppliers	(3,064,719)	(2,387,127)
	421,651	(52,265)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(255,228)	-
Proceeds from sale of investments	19,651	-
Purchase of investments	-	(7,578)
	(235,577)	(7,578)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from line of credit	-	36,253
Proceeds from forgivable note payable	256,000	-
Principal payments on note payable and line of credit	(37,753)	(1,500)
	218,247	34,753
 NET CHANGE IN CASH AND CASH EQUIVALENTS	 404,321	 (25,090)
CASH AND CASH EQUIVALENTS		
Beginning of the year	715,751	740,841
End of the year, including restricted	1,120,072	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	(124,379)	(123,923)
End of the year	\$ 995,693	\$ 571,828

THE SOPHIA WAY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

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. The Board has designated certain otherwise net assets without donor restrictions as a Board designated reserve. These funds are approved by the Board to be held for specific purposes and require Board approval to designate for any other purpose.

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, 2020 and 2019.

Cash and Cash Equivalents – For purposes of the statements 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 statements of financial position. Unrealized gains and losses are included in the change in net assets in the accompanying statement of activities. The Organization’s investments consist of equity mutual funds at December 31, 2019.

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:

THE SOPHIA WAY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

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

- 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.
- 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, 2020 and 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, 2020 and 2019. It is the Organization’s policy to report donor-restricted support that was initially a conditional contribution and for which the donor-imposed conditions and restrictions are met in the same reporting period as net assets without donor restrictions.

THE SOPHIA WAY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

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

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. Contributions with donor restrictions for the purchase of property and equipment are released from restriction when the property and equipment is placed in service.

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.

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 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 statements 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.

THE SOPHIA WAY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

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

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).

Subsequent Events - Subsequent events were evaluated through July 28, 2021, which is the date the financial statements were available to be issued.

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:

	<u>2020</u>	<u>2019</u>
Financial Assets		
Cash and cash equivalents	\$ 1,120,072	\$ 715,751
Investments	-	19,651
Accounts receivable	487,912	275,966
Pledges receivable	218,891	970,593
Total financial assets	<u>1,826,875</u>	<u>1,981,961</u>
Less those unavailable for general expenditure within one year:		
Receivable balances to be collected in future years	(20,000)	-
Restricted by donors with purpose restrictions	(124,379)	(1,230,353)
Restricted by grantor with purpose restrictions in order to receive funding	-	(20,000)
Board designated net assets	<u>(50,000)</u>	<u>(50,000)</u>
Financial assets available within one year	<u><u>\$ 1,632,496</u></u>	<u><u>\$ 681,608</u></u>

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 restricted for the capital campaign. In the event the need arises to utilize the Board-designated funds for liquidity purposes, the reserves could be drawn upon through Board resolution.

THE SOPHIA WAY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

Note 3 – Conditional Grants

As of December 31, 2020, the Organization received notice of four multi-year government grant awards totaling \$973,697, of which \$65,731 was recognized before the year ended December 31, 2020 and \$317,626 was recognized in the year ended December 31, 2020. The remainder of these awards, totaling \$590,340, 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 4 – 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.

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

	2020	2019
Less than one year	\$ 39,393	\$ 39,701
One to five years	163,812	203,205
	<u>203,205</u>	<u>242,906</u>
Less discount on long term receivable	(15,848)	(15,848)
	<u>\$ 187,357</u>	<u>\$ 227,058</u>

Note 5 – Property and Equipment

Property and equipment consists of the following at December 31:

	2020	2019
Leasehold improvements	\$ 1,410,862	\$ 660,919
Less accumulated depreciation	(205,048)	(175,029)
	<u>\$ 1,205,814</u>	<u>\$ 485,890</u>

THE SOPHIA WAY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

Note 6 – 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 \$7,875 and \$9,375 at December 31, 2020 and 2019, respectively.

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

2021	\$ 1,500
2022	1,500
2023	1,500
2024	1,500
2025	1,500
Thereafter	375
	<hr/>
	\$ 7,875
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Note 7 – Forgivable Note Payable

The Organization entered into a Small Business Administration Paycheck Protection Program loan payable with a bank on April 27, 2020 for \$256,000 with a maturity date of April 27, 2022, if conditions are not met. The loan is unsecured with an interest rate of 1%. Payments of principal and interest are due monthly beginning in 2021 under the PPP Flexibility Act, with the outstanding principal balance due in full on the maturity date, if conditions are not met. The loan can be forgiven if the Organization meets certain criteria and applies for forgiveness with the Small Business Administration. The Organization expects to meet the criteria to have the full note amount forgiven in the year ending December 31, 2021. As such, the forgivable note payable is presented as a current liability on the statement of financial position.

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 was 4.25% and 5.5% at December 31, 2020 and 2019, respectively. 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, with no balance outstanding at December 31, 2020.

THE SOPHIA WAY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

Note 9 – Net Assets with Donor Restrictions

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

	<u>2020</u>	<u>2019</u>
Contributed facility receivable	\$ 187,357	\$ 227,058
Other time restricted	128,809	74,750
Capital campaign	124,379	1,230,353
Emergency shelter	6,750	-
	<u>\$ 447,295</u>	<u>\$ 1,532,161</u>

Note 10 – Lease 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 Sophia's Place 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.

The Organization entered into a sublease agreement in June 2019 with Catholic Community Services to run its Helen's Place shelter, which expires in December 2059. The Organization will not be charged monthly rent for use of the facility, but is required to pay all improvements to the premises. The Organization paid \$241,943 and \$500,000 to Catholic Community Services during the years ended December 31, 2020 and 2019, respectively and these amounts were recorded to leasehold improvements when the facility opened in September 2020.

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

2021	\$ 15,787
2022	16,101
2023	16,421
2024	16,747
2025	17,080
Thereafter	<u>4,480</u>
	<u>\$ 86,616</u>

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Note 11 – Donated Goods and Services

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

	2020	2019
Meals and food	\$ 241,052	\$ 163,151
Use of facilities	74,280	25,911
Supplies	68,699	-
Client assistance	62,860	-
Professional services	50,440	3,500
Clothing and toiletries	-	113,978
Equipment	-	24,250
Other donated goods	-	14,584
Household items	-	11,216
	<u>\$ 497,331</u>	<u>\$ 356,590</u>

Donated goods and services were used as follows during the years ended December 31:

	2020	2019
Program services	\$ 424,433	\$ 353,222
Management and general	22,458	1,497
Fundraising	50,440	1,871
	<u>\$ 497,331</u>	<u>\$ 356,590</u>

Note 12 – Concentrations

As of December 31, 2020 and 2019, 89% and 68% of accounts receivable was due from one government agency, respectively.

As of December 31, 2020, 45% of pledges receivable was due from two donors. As of December 31, 2019, 45% of pledges receivable was due from one donor.

For the years ended December 31, 2020 and 2019, 56% and 52% of government contracts was received from one agency, respectively.

For the year ended December 31, 2019, 38% of contributions was received from one donor. There was no such concentration for the year ended December 31, 2020.

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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 \$7,199 and \$2,880 for the years ended December 31, 2020 and 2019, respectively.

Note 14 – Risks and Uncertainties

In December 2019, a novel strain of coronavirus (COVID-19) was first reported. 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.

The extent to which the pandemic will further impact the Organization going forward will depend on numerous evolving factors that cannot be reasonably predicted, including the duration and scope of the pandemic; governmental, business, and families' actions in response to the pandemic; and the impact on economic activity including the possibility of recession or financial market instability.