

**THE SOPHIA WAY  
(A WASHINGTON NONPROFIT CORPORATION)  
FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2021 AND 2020**



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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
The Sophia Way  
Bellevue, Washington

### Report on the Audit of the Financial Statements

#### *Opinion*

We have audited the accompanying financial statements of The Sophia Way (a Washington nonprofit organization), which comprise the statement of financial position as of December 31, 2021, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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, 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.

#### *Basis for Opinion*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of The Sophia Way and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### **Adjustments to Prior Period Financial Statements**

The financial statements of The Sophia Way as of December 31, 2020, were audited by other auditors whose report dated July 28, 2021, expressed an unmodified opinion on those financial statements. As discussed in Note 10 to the financial statements, The Sophia Way adjusted its financial statements to correct certain balances. The other auditors reported on the financial statements before the adjustments.

As part of our audit of the 2021 financial statements, we also audited the adjustments to the 2020 financial statements to retrospectively correct the balances as described in Note 10. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to The Sophia Way's 2020 financial statements other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2020 financial statements as a whole.

***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about The Sophia Way's ability to continue as a going concern for one year after the date the financial statements are available to be issued.

***Auditors' Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Sophia Way's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about The Sophia Way's ability to continue as a going concern for a reasonable period of time.

Board of Directors  
The Sophia Way

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

*CliftonLarsonAllen LLP*

**CliftonLarsonAllen LLP**

Bellevue, Washington  
January 13, 2023

**THE SOPHIA WAY  
STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2021 AND 2020**

	2021	(Restated) 2020
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 646,963	\$ 129,113
Grants Receivable, Current	312,639	605,063
Pledges Receivable, Current	164,182	198,891
Contributed Facility Receivable, Current	39,079	39,393
Prepaid Expenses	27,435	35,566
Total Current Assets	1,190,298	1,008,026
<b>NONCURRENT ASSETS</b>		
Cash - Operating and Replacement Reserves	1,050,691	960,691
Restricted Cash - Capital Campaign	-	124,379
Pledges Receivable, Net of Current Portion	-	20,000
Contributed Facility Receivable, Net of Current Portion	110,414	147,964
Prepaid Rent	698,032	716,898
Equipment and Leasehold Improvements, Net	450,517	470,054
Total Noncurrent Assets	2,309,654	2,439,986
 Total Assets	 \$ 3,499,952	 \$ 3,448,012
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable	\$ 64,175	\$ 67,298
Accrued Payroll, Related Taxes, and Benefits	109,125	56,181
Note Payable, Current Portion	1,500	1,500
Paycheck Protection Program Loan	-	256,000
Total Current Liabilities	174,800	380,979
<b>LONG-TERM LIABILITIES</b>		
Note Payable	5,000	6,375
Total Liabilities	179,800	387,354
<b>NET ASSETS</b>		
Without Donor Restrictions:		
Board Designated	50,000	50,000
Undesignated	2,679,530	2,563,363
Total	2,729,530	2,613,363
With Donor Restrictions	590,622	447,295
Total Net Assets	3,320,152	3,060,658
 Total Liabilities and Net Assets	 \$ 3,499,952	 \$ 3,448,012

See accompanying Notes to Financial Statements.

**THE SOPHIA WAY**  
**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**YEAR ENDED DECEMBER 31, 2021**

	Without Donor Restrictions	With Donor Restrictions	Total
<b>REVENUE AND SUPPORT</b>			
City and County Grants	\$ 1,443,372	\$ -	\$ 1,443,372
Contributions	1,656,699	310,000	1,966,699
In-Kind Donations	831,790	-	831,790
Investment Return and Other	1,236	-	1,236
Paycheck Protection Program Loan Forgiveness	256,000	-	256,000
Net Assets Released from Restriction	166,673	(166,673)	-
Total Revenue and Support	<u>4,355,770</u>	<u>143,327</u>	<u>4,499,097</u>
<b>EXPENSES</b>			
Program Services	3,212,092	-	3,212,092
General and Administrative	558,869	-	558,869
Fundraising	468,642	-	468,642
Total Expenses	<u>4,239,603</u>	<u>-</u>	<u>4,239,603</u>
<b>CHANGE IN NET ASSETS</b>	116,167	143,327	259,494
Net Assets - Beginning of Year	<u>2,613,363</u>	<u>447,295</u>	<u>3,060,658</u>
<b>NET ASSETS - END OF YEAR</b>	<u><u>\$ 2,729,530</u></u>	<u><u>\$ 590,622</u></u>	<u><u>\$ 3,320,152</u></u>

See accompanying Notes to Financial Statements.

**THE SOPHIA WAY**  
**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**YEAR ENDED DECEMBER 31, 2020 (RESTATED)**

	Without Donor Restrictions	With Donor Restrictions	Total
<b>REVENUE AND SUPPORT</b>			
City and County Grants	\$ 1,654,145	\$ -	\$ 1,654,145
Contributions	1,605,344	179,652	1,784,996
In-Kind Donations	497,331	-	497,331
Program Services	450	-	450
Investment Return and Other	4,249	-	4,249
Net Assets Released from Restriction	1,264,518	(1,264,518)	-
Total Revenue and Support	5,026,037	(1,084,866)	3,941,171
<b>EXPENSES</b>			
Program Services	2,737,025	-	2,737,025
General and Administrative	578,070	-	578,070
Fundraising	465,103	-	465,103
Total Expenses	3,780,198	-	3,780,198
<b>CHANGE IN NET ASSETS</b>	1,245,839	(1,084,866)	160,973
Net Assets - Beginning of Year	1,367,524	1,532,161	2,899,685
<b>NET ASSETS - END OF YEAR</b>	\$ 2,613,363	\$ 447,295	\$ 3,060,658

See accompanying Notes to Financial Statements.



**THE SOPHIA WAY**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED DECEMBER 31, 2021**

	Program Services	General and Administrative	Fundraising	Total
Salaries	\$ 1,413,676	\$ 222,778	\$ 207,163	\$ 1,843,617
Payroll Taxes	149,150	6,045	27,342	182,537
Employee Benefits	123,773	32,161	18,494	174,428
Total Personnel Expenses	<u>1,686,599</u>	<u>260,984</u>	<u>252,999</u>	<u>2,200,582</u>
In-Kind Expenses	831,507	37,846	-	869,353
Rent	18,866	39,491	-	58,357
Client Assistance	321,129	-	-	321,129
Professional Fees	188,169	46,792	39,415	274,376
Office	-	35,623	-	35,623
Utilities	115,833	17,038	-	132,871
Other Expenses	8,320	-	-	8,320
Venue and Catering	-	-	128,454	128,454
Depreciation	82	24,369	-	24,451
Bad Debt	-	35,401	-	35,401
Marketing	-	-	34,639	34,639
Information Technology	7,346	5,891	-	13,237
Insurance	-	16,994	-	16,994
Postage and Delivery	-	2,044	9,473	11,517
Travel	-	10	-	10
Dues and Subscriptions	19,284	9,580	-	28,864
Staff Development and Appreciation	14,957	17,594	3,662	36,213
Interest and Bank Fees	-	9,212	-	9,212
Total Expenses	<u>\$ 3,212,092</u>	<u>\$ 558,869</u>	<u>\$ 468,642</u>	<u>\$ 4,239,603</u>

See accompanying Notes to Financial Statements.

**THE SOPHIA WAY**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED DECEMBER 31, 2020 (RESTATED)**

	Program Services	General and Administrative	Fundraising	Total
Salaries	\$ 1,215,138	\$ 276,406	\$ 212,979	\$ 1,704,523
Payroll Taxes	114,732	23,391	17,443	155,566
Employee Benefits	101,312	28,037	21,048	150,397
Total Personnel Expenses	<u>1,431,182</u>	<u>327,834</u>	<u>251,470</u>	<u>2,010,486</u>
In-Kind Expenses	424,434	62,159	50,440	537,033
Rent	344,767	22,142	-	366,909
Client Assistance	287,921	-	-	287,921
Professional Fees	138,202	59,837	74,938	272,977
Office	20,242	71,176	48	91,466
Utilities	48,179	9,809	-	57,988
Other Expenses	-	12,546	29,052	41,598
Venue and Catering	-	-	33,973	33,973
Depreciation	23,836	-	-	23,836
Information Technology	3,030	3,857	11,053	17,940
Insurance	8,460	2,115	2,115	12,690
Postage and Delivery	71	-	11,489	11,560
Travel	5,678	855	32	6,565
Dues and Subscriptions	-	3,456	-	3,456
Staff Development and Appreciation	1,023	1,326	493	2,842
Interest and Bank Fees	-	958	-	958
Total Expenses	<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  
STATEMENTS OF CASH FLOWS  
YEAR ENDED DECEMBER 31, 2021 AND 2020**

	2021	(Restated) 2020
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ 259,494	\$ 160,973
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	24,451	23,836
Amortization of In-Kind Receivable	37,864	39,701
Amortization of Prepaid Rent	18,866	18,866
Paycheck Protection Program Loan Forgiveness	(256,000)	-
(Increase) Decrease in Current Assets:		
Grants and Accounts Receivable	347,133	409,922
Deposits and Prepaid Expenses	8,131	(248,219)
Increase (Decrease) in Current Liabilities:		
Accounts Payable	(3,123)	(4,701)
Accrued Expenses	52,944	(131,844)
Net Cash Provided by Operating Activities	489,760	268,534
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of Property and Equipment	(4,914)	(8,000)
Proceeds from Sale of Investments	-	19,651
Net Cash Provided (Used) by Investing Activities	(4,914)	11,651
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from forgivable Note Payable	-	256,000
Payments on Note Payable and Line of Credit	(1,375)	(37,753)
Net Cash Provided (Used) by Financing Activities	(1,375)	218,247
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	483,471	498,432
Cash and Cash Equivalents - Beginning of Year	1,214,183	715,751
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 1,697,654	\$ 1,214,183
<b>RECONCILIATION OF CASH, CASH EQUIVALENTS, AND RESTRICTED CASH - END OF YEAR PER THE CASH FLOW STATEMENT TO CASH, CASH EQUIVALENTS, AND RESTRICTED CASH PER THE STATEMENTS OF FINANCIAL POSITION</b>		
Cash and Cash Equivalents	\$ 646,963	\$ 129,113
Operating and Replacement Reserves	1,050,691	960,691
Capital Campaign Reserves	-	124,379
Total	\$ 1,697,654	\$ 1,214,183
<b>NONCASH ACTIVITIES</b>		
Debt Forgiven	\$ 256,000	\$ -

See accompanying Notes to Financial Statements.

**THE SOPHIA WAY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021 AND 2020**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Business**

The Sophia Way (the Organization) is a Washington nonprofit corporation providing temporary shelter, food, and case management services to women experiencing homelessness in East King County, Washington. The Organization also assists residents in transitioning from temporary shelter programs to permanent housing.

The Organization was originally a program of Eastside Interfaith Social Concerns Council and was established as a stand-alone entity in May 2012.

**Cash and Cash Equivalents**

For the purpose of the statement of cash flows, the Organization considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

At times, cash deposits, including amounts held in reserves, exceed the federally insured limits of the financial institution and expose the Organization to credit risk. At December 31, 2021, the Organization's deposits were \$1,409,426 over the federally insured limits. The Organization has not experienced any losses in such accounts. The Organization believes it is not exposed to any significant credit risk on cash and cash equivalents.

**Grants and Contributions Receivable**

Government grants and contracts receivable are stated at the amount management expects to collect from government agencies for services provided. Contributions receivable consists of unconditional promises to give from private donors. An allowance for uncollectible accounts is based on prior experience and a review of existing receivables. It is the Organization's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected. At December 31, 2021, no allowance for doubtful accounts was considered necessary.

**Fair Value and Fair Value Measurements**

The Organization measures its investments at fair value on a recurring basis. A fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels that are ranked to indicate the quality and reliability of the resulting fair value measure: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority. Level 2 inputs consist of observable inputs other than quoted prices for identical assets, and Level 3 inputs are unobservable inputs for the asset and include situations where there is little, if any, market activity for the investment. The Organization uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Organization measures fair value using Level 1 inputs, because they generally provide the most reliable evidence of fair value. Level 3 inputs are only used when Level 1 or Level 2 inputs are not available. During the year ended December 31, 2021, the Organization had no investments.

**THE SOPHIA WAY**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2021 AND 2020**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Property and Equipment**

Property and equipment are recorded at cost if purchased or at fair market value if donated. Expenditures for repairs and maintenance that prolong the useful lives of assets are also capitalized. The Organization capitalizes assets with a value of more than \$2,500 and a useful life in excess of one year. Depreciation is computed by the straight-line method over the useful lives of the assets, from three to ten years.

**Revenue Recognition**

Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

A portion of the Organization's revenue is derived from cost-reimbursable governmental grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with specific grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the statement of financial position. The Organization was awarded, but did not receive an advance for, cost-reimbursable grants of \$912,984 and \$590,340, for which qualifying expenditures had not yet been incurred and accordingly had not been recognized as revenue at December 31, 2021 and 2020, respectively.

**Net Assets**

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor- or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

*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.

The Organization reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions when received. When a restriction expires, 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.

**THE SOPHIA WAY**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2021 AND 2020**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Net Assets (Continued)**

The governing board has designated, from net assets without donor restrictions, net assets for operating reserves.

**Donated Services and Supplies**

The Organization recognizes donated services that create or enhance nonfinancial assets that would require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Donated services meeting these criteria and donated supplies are recorded at estimated fair market value as support and expense.

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. These donations are generally distributed to the clients within a short period of time. There was no inventory at December 31, 2021 and 2020.

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.

**Functional Expenses**

The statements of functional expenses present 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. Other expenses are allocated by function based on payroll expense.

**Tax-Exempt Status**

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. It has been classified as an organization that is not a private foundation within the meaning of Section 509(a) because it is an organization of the type described in Section 509(a)(2). The Organization's income tax filings are subject to examination by various taxing authorities.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**THE SOPHIA WAY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021 AND 2020**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Upcoming Accounting Standards**

The Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2016-02, Leases (Topic 842) requiring lessees to recognize leases on the statement of financial position and disclose key information about leasing arrangements. The new standard establishes a right-of-use (ROU) model that requires a lessee to recognize a ROU asset and lease liability on the statement of financial position for all leases with a term longer than 12 months. The standard will not be effective for the Organization until the year ending December 31, 2022. Management is currently in the process of evaluating the impact.

**Reclassifications**

Certain reclassifications have been made to the 2020 financial statement amounts to conform with the current year presentation.

**NOTE 2 LIQUIDITY AND AVAILABILITY**

Financial assets available for general expenditure within one year of the statement of financial position date without donor or other restrictions limiting their use are as follows:

	2021	(Restated) 2020
Financial Assets		
Cash and Cash Equivalents	\$ 646,963	\$ 129,113
Grants Receivable	312,639	605,063
Contributions Receivable	164,182	198,891
Total Financial Assets	<u>1,123,784</u>	<u>933,067</u>
Less: Amounts Unavailable for Expenditure Within One Year:		
Restricted by Donors for Purpose Restrictions	(490,622)	(318,486)
Board Designated Net Assets	(50,000)	(50,000)
Financial Assets Available Within One Year	<u>\$ 583,162</u>	<u>\$ 564,581</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, 2021 AND 2020**

**NOTE 3 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:

	2021	2020
Less Than One Year	\$ 39,079	\$ 39,393
One to Five Years	124,733	163,812
	<u>163,812</u>	<u>203,205</u>
Less: Discount on Long Term Receivable:	(14,319)	(15,848)
	<u>\$ 149,493</u>	<u>\$ 187,357</u>

**NOTE 4 PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following at December 31, 2021 and 2020:

	2021	(Restated) 2020
Leasehold Improvements	\$ 673,833	\$ 668,919
Less: Accumulated Depreciation	(223,316)	(198,865)
Ending Balance	<u>\$ 450,517</u>	<u>\$ 470,054</u>

**NOTE 5 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 \$6,500 and \$7,875 at December 31, 2021 and 2020, respectively.

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

2022	\$ 1,500
2023	1,500
2024	1,500
2025	1,500
2026	500
Total	<u>\$ 6,500</u>



**THE SOPHIA WAY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021 AND 2020**

**NOTE 6 LINE OF CREDIT**

The Organization has a line of credit agreement with a bank up to \$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. There was no balance outstanding at December 31, 2021 or 2020.

**NOTE 7 PAYROLL PROTECTION PROGRAM**

On April 27, 2020, the Organization received a loan from Banner Bank in the amount of \$256,000 to fund payroll, rent, utilities, and interest on mortgages and existing debt through the Paycheck Protection Program (the PPP Loan). The original loan agreement was written prior to the PPP Flexibility Act of 2020 (June 5) and was due over 24 months, deferred for six months. Subsequent to this, the law changed the loan deferral terms retroactively. The PPP Flexibility Act and subsequent regulations supersede the loan agreement. The PPP loan bears interest at a fixed rate of 1.0% per annum, has a term of two years, and is unsecured and guaranteed by the U.S. Small Business Administration (SBA). Payment of principal and interest is deferred until the date on which the amount of forgiveness is remitted to the lender or, if the Organization fails to apply for forgiveness within 10 months after the covered period, then payment of principal and interest shall begin on that date. These amounts may be forgiven subject to compliance and approval based on the timing and use of these funds in accordance with the program. The Organization expects to elect the 24-week covered period starting on April 27, 2020 as the time it will spend its PPP loan funds.

The Organization was notified on July 26, 2021 that the SBA had forgiven the entire balance of the loan.

The SBA may review funding eligibility and usage of funds for compliance with program requirements based on dollar thresholds and other factors. The amount of liability, if any, from potential noncompliance cannot be determined with certainty; however, management is of the opinion that any review will not have a material adverse impact on the Company's financial position.

**NOTE 8 NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions consisted of the following at December 31, 2021.

	<u>2021</u>	<u>2020</u>
Contributed Facility Receivable	\$ 149,493	\$ 187,357
Other Time Restricted	100,000	128,809
Helen's Place	124,379	124,379
Client Assistance	85,000	-
Behavioral Health	125,000	-
Emergency Shelter	6,750	6,750
Ending Balance	<u>\$ 590,622</u>	<u>\$ 447,295</u>

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**NOTE 9 BOARD-DESIGNATED NET ASSETS**

The Organization's board of directors has set aside \$50,000, to be released only with their approval.

**NOTE 10 PRIOR PERIOD ADJUSTMENT**

Certain errors resulting in an understatement of previously reported contributions receivable were discovered during the current year. In addition, management determined that amounts paid on a lease should be classified as prepaid rent, rather than leasehold improvements. The effect on the 2020 financial statements is as follows:

	12/31/2020 As Previously Reported	Adjustment	12/31/2020 As Adjusted
Grants Receivable	\$ 487,912	\$ 117,151	\$ 605,063
Cash and Cash Equivalents	995,693	(866,580)	129,113
Cash - Operating and Replacement Reserves	-	960,691	960,691
Prepaid Rent	-	735,760	735,760
Leasehold Improvements	1,410,862	(741,943)	668,919
Accumulated Depreciation	205,048	(6,183)	198,865
Contribution Revenue	1,573,734	211,262	1,784,996
Depreciation	30,019	(6,183)	23,836
Rent Expense	360,726	6,183	366,909
Change in Net Assets	(50,289)	211,262	160,973
Net Assets - Without Donor Restrictions	2,402,101	211,262	2,613,363
Total Net Assets	2,849,396	211,262	3,060,658

**NOTE 11 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 separate sublease agreement in June 2019 with Catholic Community Services of Western Washington (CCS) to run its Helen's Place shelter, which expires in December 2059. The Organization paid \$241,943 and \$500,000 to CCS in 2020 and 2019, respectively. These amounts were previously recorded as leasehold improvements but have been reclassified as prepaid rent for 2020 and 2021 – see Note 9.

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**NOTE 11 LEASE COMMITMENTS (CONTINUED)**

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

2022	\$	16,101
2023		16,421
2024		16,747
2025		17,080
2026		4,480
Total	<u>\$</u>	<u>70,829</u>

**NOTE 12 DONATED GOODS AND SERVICES**

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

	<u>2021</u>	<u>2020</u>
Meals and Food	\$ 338,587	\$ 241,052
Use of Facilities	105,000	74,280
Supplies	86,113	68,699
Client Assistance	302,090	62,860
Professional Services	-	50,440
	<u>\$ 831,790</u>	<u>\$ 497,331</u>

**NOTE 13 CONCENTRATIONS**

At December 31, 2021, 100% of grants receivable was due from two government agencies. At December 31, 2020, 89% of grants receivable was due from one government agency.

At December 31, 2021, 44% of pledges receivable was due from one donor. At December 31, 2020, 45% of pledges receivable was due from two donors.

For the year ended December 31, 2021, 100% of government contracts was received from three agencies. For the year ended December 31, 2020, 56% of government contracts was received from one agency.

**NOTE 14 EMPLOYEE RETIREMENT PLAN**

The Organization has 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. The Organization contributed \$9,592 and 7,199 to the plan for the years ended December 31, 2021 and 2020, respectively.

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**NOTE 15 COMMITMENTS AND CONTINGENCIES**

Amounts received from King County and local municipalities are subject to audit and adjustments by the grantor agency. Any disallowed cost, including amounts already collected, may constitute a liability for the Organization. The amounts, if any, of expenditures, which may be disallowed by the grantor, are recorded at the time that such amounts can be reasonably determined, normally upon notification of the government agency. During the year ended December 31, 2021, no such adjustments were made.

As part of the sublease of the Helen's Place property with Catholic Community Services of Western Washington, the Organization has committed to complying with the covenants and regulatory agreements which are recorded on the land. The permitted use of the premises is to provide shelter and day center services to women and children.

**NOTE 16 RISKS AND UNCERTAINTIES**

During 2020, the World Health Organization declared the spread of Coronavirus Disease (COVID-19) a worldwide pandemic. The COVID-19 pandemic and related government-imposed restrictions and interventions are having significant effects on global markets, supply chains, businesses, and communities. Specific to the Organization, COVID-19 may impact various parts of its 2022 operations and financial results. Management believes the Organization is taking appropriate actions to mitigate the negative impact. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated as these events are still developing.

**NOTE 17 SUBSEQUENT EVENTS**

The Organization has evaluated subsequent events through January 13, 2023, which is the date the financial statements were available to be issued, and has determined that there are no subsequent events that require disclosure.



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