

**THE SOPHIA WAY
(A WASHINGTON NONPROFIT CORPORATION)
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2023 AND 2022**



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**THE SOPHIA WAY
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YEARS ENDED DECEMBER 31, 2023 AND 2022**

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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 statements of financial position as of December 31, 2023 and 2022, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

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, 2023 and 2022, 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.

Basis for Opinion

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

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.

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

Bellevue, Washington
September 9, 2024

THE SOPHIA WAY
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 587,663	\$ 223,964
Grants Receivable, Current	381,440	429,238
Pledges Receivable, Current	308,022	221,650
Contributed Facility Receivable, Current	38,433	38,759
Operating Lease Right-of-Use Asset	968,483	1,070,493
Finance Lease Right-of-Use Asset	8,943	12,195
Other Assets	239,789	134,224
Total Current Assets	<u>2,532,773</u>	<u>2,130,523</u>
NONCURRENT ASSETS		
Cash - Operating and Replacement Reserves	640,365	1,135,170
Contributed Facility Receivable, Net of Current Portion	38,428	73,909
Money Market	102,717	101,303
Prepaid Rent	5,820	-
Equipment and Leasehold Improvements, Net	41,879	21,390
Total Noncurrent Assets	<u>829,209</u>	<u>1,331,772</u>
Total Assets	<u><u>\$ 3,361,982</u></u>	<u><u>\$ 3,462,295</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 79,868	\$ 33,816
Accrued Payroll, Related Taxes, and Benefits	151,880	124,666
Current Lease Liability - Operating	16,111	15,469
Current Lease Liability - Finance	3,274	3,211
Note Payable, Current Portion	1,500	1,500
Total Current Liabilities	<u>252,633</u>	<u>178,662</u>
LONG-TERM LIABILITIES		
Long-Term Lease Liability - Operating	24,467	40,578
Long-Term Lease Liability - Finance	5,889	9,164
Note Payable	1,875	3,375
Total Long-Term Liabilities	<u>32,231</u>	<u>53,117</u>
Total Liabilities	284,864	231,779
NET ASSETS		
Without Donor Restrictions:		
Board-Designated	50,000	50,000
Undesignated	2,698,522	2,699,600
Total	<u>2,748,522</u>	<u>2,749,600</u>
With Donor Restrictions	328,596	480,916
Total Net Assets	<u>3,077,118</u>	<u>3,230,516</u>
Total Liabilities and Net Assets	<u><u>\$ 3,361,982</u></u>	<u><u>\$ 3,462,295</u></u>

See accompanying Notes to Financial Statements.

THE SOPHIA WAY
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT			
City and County Grants	\$ 1,826,715	\$ -	\$ 1,826,715
Contributions	1,475,040	-	1,475,040
Donated Nonfinancial Assets	845,930	-	845,930
Investment Return and Other	9,594	-	9,594
Net Assets Released from Restriction	152,320	(152,320)	-
Total Revenue and Support	<u>4,309,599</u>	<u>(152,320)</u>	<u>4,157,279</u>
EXPENSES			
Program Services	3,145,184	-	3,145,184
General and Administrative	799,371	-	799,371
Fundraising	366,122	-	366,122
Total Expenses	<u>4,310,677</u>	<u>-</u>	<u>4,310,677</u>
CHANGE IN NET ASSETS	(1,078)	(152,320)	(153,398)
Net Assets - Beginning of Year	<u>2,749,600</u>	<u>480,916</u>	<u>3,230,516</u>
NET ASSETS - END OF YEAR	<u><u>\$ 2,748,522</u></u>	<u><u>\$ 328,596</u></u>	<u><u>\$ 3,077,118</u></u>

See accompanying Notes to Financial Statements.

THE SOPHIA WAY
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT			
City and County Grants	\$ 1,621,693	\$ -	\$ 1,621,693
Contributions	1,620,681	106,028	1,726,709
Donated Nonfinancial Assets	807,521	-	807,521
Investment Return and Other	2,387	-	2,387
Net Assets Released from Restriction	215,734	(215,734)	-
Total Revenue and Support	<u>4,268,016</u>	<u>(109,706)</u>	<u>4,158,310</u>
EXPENSES			
Program Services	3,188,026	-	3,188,026
General and Administrative	654,092	-	654,092
Fundraising	405,828	-	405,828
Total Expenses	<u>4,247,946</u>	<u>-</u>	<u>4,247,946</u>
CHANGE IN NET ASSETS	20,070	(109,706)	(89,636)
Net Assets - Beginning of Year	<u>2,729,530</u>	<u>590,622</u>	<u>3,320,152</u>
NET ASSETS - END OF YEAR	<u><u>\$ 2,749,600</u></u>	<u><u>\$ 480,916</u></u>	<u><u>\$ 3,230,516</u></u>

See accompanying Notes to Financial Statements.

THE SOPHIA WAY
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2023

	Program Services	General and Administrative	Fundraising	Total
Salaries	\$ 1,650,631	\$ 214,899	\$ 185,256	\$ 2,050,786
Payroll Taxes	177,262	23,614	35,452	236,328
Employee Benefits	91,716	39,162	14,728	145,606
Total Personnel Expenses	<u>1,919,609</u>	<u>277,675</u>	<u>235,436</u>	<u>2,432,720</u>
Donated Nonfinancial Assets	746,302	35,807	-	782,109
Rent	-	111,246	-	111,246
Client Assistance	298,065	-	-	298,065
Professional Fees	1,455	248,722	-	250,177
Office	2,674	18,944	-	21,618
Utilities	147,125	10,327	-	157,452
Other Expenses	-	11,795	-	11,795
Venue and Catering	-	-	91,873	91,873
Depreciation	-	7,821	-	7,821
Marketing	-	-	10,235	10,235
Information Technology	5,053	4,454	-	9,507
Insurance	-	9,291	-	9,291
Postage and Delivery	-	492	16,048	16,540
Travel	20	139	11	170
Repairs and Maintenance	14,225	682	-	14,907
Dues and Subscriptions	2,585	15,432	12,228	30,245
Staff Development and Appreciation	8,071	39,945	291	48,307
Interest and Bank Fees	-	6,599	-	6,599
Total Functional Expenses	<u>\$ 3,145,184</u>	<u>\$ 799,371</u>	<u>\$ 366,122</u>	<u>\$ 4,310,677</u>

See accompanying Notes to Financial Statements.

THE SOPHIA WAY
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2022

	Program Services	General and Administrative	Fundraising	Total
Salaries	\$ 1,527,322	\$ 221,719	\$ 212,018	\$ 1,961,059
Payroll Taxes	180,621	17,556	28,908	227,085
Employee Benefits	109,274	32,848	17,067	159,189
Total Personnel Expenses	<u>1,817,217</u>	<u>272,123</u>	<u>257,993</u>	<u>2,347,333</u>
Donated Nonfinancial Assets	685,778	36,825	-	722,603
Rent	34,863	113,302	-	148,165
Client Assistance	342,725	-	-	342,725
Professional Fees	155,712	56,990	-	212,702
Office	1,884	16,524	-	18,408
Utilities	127,678	11,386	-	139,064
Other Expenses	-	12,736	-	12,736
Venue and Catering	-	-	101,093	101,093
Depreciation	-	25,851	-	25,851
Bad Debt	-	32,950	-	32,950
Marketing	-	-	20,072	20,072
Information Technology	5,495	7,255	-	12,750
Insurance	-	10,639	-	10,639
Postage and Delivery	-	2,610	13,425	16,035
Travel	2	22	-	24
Repairs and Maintenance	8,349	-	-	8,349
Dues and Subscriptions	-	12,614	12,715	25,329
Staff Development and Appreciation	8,323	34,368	530	43,221
Interest and Bank Fees	-	7,897	-	7,897
Total Functional Expenses	<u><u>\$ 3,188,026</u></u>	<u><u>\$ 654,092</u></u>	<u><u>\$ 405,828</u></u>	<u><u>\$ 4,247,946</u></u>

See accompanying Notes to Financial Statements.

THE SOPHIA WAY
STATEMENTS OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (153,398)	\$ (89,636)
Adjustments to Reconcile Changes in Net Assets to Net Cash Used by Operating Activities:		
Depreciation	7,821	25,851
Amortization of Right-of-Use Assets	97,132	106,585
Amortization of In-Kind Receivable	35,807	36,825
Amortization of Prepaid Rent	-	18,863
(Increase) Decrease in Assets:		
Grants and Accounts Receivable	(38,574)	(174,067)
Operating Lease Right-of-Use Asset	4,878	1,217,116
Finance Lease Right-of-Use Asset	3,252	17,073
Leasehold Improvement	-	(607,445)
Prepaid Lease (Kirkland)	(5,820)	(698,031)
Deposits and Prepaid Expenses	(105,565)	(106,789)
Increase (Decrease) in Liabilities:		
Accounts Payable	46,052	(30,359)
Lease Liability	(18,681)	(56,047)
Accrued Expenses	27,214	15,541
Net Cash Used by Operating Activities	<u>(99,882)</u>	<u>(324,520)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Property and Equipment	(28,310)	-
Proceeds from Sale of Investments	3,303	-
Purchase of Investments	(4,717)	-
Net Cash Used by Investing Activities	<u>(29,724)</u>	<u>-</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Financing Lease Obligations	-	(12,375)
Payments on Note Payable and Line of Credit	(1,500)	(1,625)
Net Cash Used by Financing Activities	<u>(1,500)</u>	<u>(14,000)</u>
NET DECREASE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	(131,106)	(338,520)
Cash, Cash Equivalents, and Restricted Cash - Beginning of Year	<u>1,359,134</u>	<u>1,697,654</u>
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH - END OF YEAR	<u>\$ 1,228,028</u>	<u>\$ 1,359,134</u>
RECONCILIATION OF CASH, CASH EQUIVALENTS, AND RESTRICTED CASH - END OF YEAR PER THE STATEMENTS OF CASH FLOWS TO CASH, CASH EQUIVALENTS, AND RESTRICTED CASH PER THE STATEMENTS OF FINANCIAL POSITION		
Cash and Cash Equivalents	\$ 587,663	\$ 223,964
Operating and Replacement Reserves	640,365	1,135,170
Total	<u>\$ 1,228,028</u>	<u>\$ 1,359,134</u>

See accompanying Notes to Financial Statements.

**THE SOPHIA WAY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022**

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 statements 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, 2023, the Organization's deposits were \$618,218 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 and Allowance for Credit Losses

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 consists of current and expected losses based on historical charge-off rates and anticipated future conditions that impact the collectability of receivables at December 31, 2023. It is the Organization's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected. At December 31, 2023, no allowance for credit losses 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. At December 31, 2023, and December 31, 2022 the Organization had \$102,717 and \$101,303, respectively, invested into a money market account.

THE SOPHIA WAY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases

The Organization leases facilities and equipment. The Organization determines if an arrangement is a lease at inception. Operating leases are included in Operating Lease Right-of-Use (ROU) Assets and Operating Lease Liabilities on the statements of financial position.

ROU assets represent the Organization's right to use an underlying asset for the lease term and lease liabilities represent the Organization's obligation to make lease payments arising from the lease. ROU assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. As most of leases do not provide an implicit rate, the Organization uses a risk-free rate based on the information available at commencement date in determining the present value of lease payments. The operating lease ROU asset also includes any lease payments made and excludes lease incentives. The lease terms may include options to extend or terminate the lease when it is reasonably certain that the Organization will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term. The Organization has elected to recognize payments for short-term leases with a lease term of 12 months or less as expense as incurred and these leases are not included as lease liabilities or right-of-use assets on the statements of financial position.

The individual lease contracts do not provide information about the discount rate implicit in the lease. Therefore, the Organization has elected to use a risk-free discount rate determined using a period comparable with that of the lease term for computing the present value of lease liabilities.

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 3 to 10 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.

THE SOPHIA WAY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

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 statements of financial position. The Organization was awarded, but did not receive an advance for, cost-reimbursable grants of \$1,383,025 and \$313,741, for which qualifying expenditures had not yet been incurred and accordingly had not been recognized as revenue at December 31, 2023 and 2022, 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 statements of activities and changes in net assets as Net Assets Released from Restrictions.

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

Donated Nonfinancial Assets

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 SOPHIA WAY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Donated Nonfinancial Assets (Continued)

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 inventory of \$52,754 and \$34,449 at December 31, 2023 and 2022, respectively.

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.

Adoption of New Accounting Standards

During the year ended December 31, 2022, the Organization adopted Accounting Standards Update 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, as amended, which modified the measurement of expected credit losses. The Organization adopted this new guidance utilizing the modified retrospective transition method. The adoption of this standard did not have a material impact on the Organization's financial statements but did change how the allowance for credit losses is determined.

THE SOPHIA WAY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

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:

	2023	2022
Financial Assets:		
Cash and Cash Equivalents	\$ 587,663	\$ 223,964
Grants Receivable	381,440	429,238
Pledges Receivable	308,022	221,650
Total Financial Assets	<u>1,277,125</u>	<u>874,852</u>
Less Amounts Unavailable for Expenditure Within One Year:		
Restricted by Donors for Purpose Restrictions	(328,596)	(380,916)
Board-Designated Net Assets	(50,000)	(50,000)
Financial Assets Available Within One Year	<u>\$ 898,529</u>	<u>\$ 443,936</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. In addition, the organization has lines of credit totaling \$100,000, if needed.

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:

	2023	2022
Less Than One Year	\$ 38,433	\$ 38,759
One to Five Years	47,541	85,974
Subtotal	85,974	124,733
Less: Discount on Long Term Receivable	(9,113)	(12,065)
Total	<u>\$ 76,861</u>	<u>\$ 112,668</u>

THE SOPHIA WAY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

NOTE 4 PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	2023	2022
Leasehold Improvements	\$ 94,698	\$ 66,388
Less: Accumulated Depreciation	(52,819)	(44,998)
Property and Equipment, Net	<u>\$ 41,879</u>	<u>\$ 21,390</u>

NOTE 5 NOTE PAYABLE

During 2016, the Organization entered into a noninterest-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 \$3,375 and \$4,875 at December 31, 2023 and 2022, respectively.

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

<u>Year Ending December 31,</u>	<u>Amount</u>
2024	\$ 1,500
2025	1,500
2026	375
Total	<u>\$ 3,375</u>

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, 2025. 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, 2023 or 2022. On July 28, 2023, the Organization applied for a revolving line of credit in the amount of \$250,000 for operation expenses with a 9.5% interest rate. The promissory note was issued on January 4, 2024 with a maturity on December 15, 2026.

NOTE 7 NET ASSETS WITH DONOR RESTRICTIONS

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

	2023	2022
Contributed Facility Receivable	\$ 76,861	\$ 112,668
Other Time Restricted	98,000	100,000
Helen's Place	-	37,220
Behavioral Health	153,735	216,225
Holly House	-	14,803
Total Net Assets With Donor Restrictions	<u>\$ 328,596</u>	<u>\$ 480,916</u>

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NOTE 8 BOARD-DESIGNATED NET ASSETS

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

NOTE 9 LEASES – ASC 842

The Organization leases office and shelter space under long-term, noncancelable operating lease agreements and leases a copier under a long-term, noncancelable finance lease agreement. The leases have various expiration dates ranging from 2026 - 2059. Due to the amount of prepaid rent for the operating lease of Sophia's Place at St. Lukes, the Operating Lease Right-of-Use Asset balance is significantly larger than the related lease obligations.

Lease costs is included in rent on the Organization's statements of functional expenses is as follows for the years ended December 31:

	2023	2022
Operating Lease Right-of-Use Asset	\$ 968,483	\$1,070,493
Operating Lease Obligation	40,578	56,047
Finance Lease Right-of-Use Assets	8,943	12,195
Finance Lease Obligations	9,163	12,375

Amounts reported on the statements of financial position as of December 31, 2023 are as follows:

<u>Year Ending December 31,</u>	<u>Operating</u>	<u>Finance</u>	<u>Totals</u>
2024	\$ 16,747	\$ 3,432	\$ 20,179
2025	19,078	3,432	22,510
2026	5,592	2,573	8,165
2027	100	-	100
Total Undiscounted Lease Payments	41,517	9,437	50,954
Less: Imputed Interest	939	274	1,213
Total Present Value	<u>\$ 40,578</u>	<u>\$ 9,163</u>	<u>\$ 49,741</u>
Short-Term Operating Lease Obligation	\$ 16,111	\$ 3,274	\$ 19,385
Long-Term Operating Lease Obligation	24,467	5,889	30,357
Total	<u>\$ 40,578</u>	<u>\$ 9,163</u>	<u>\$ 49,741</u>

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NOTE 9 LEASES – ASC 842 (CONTINUED)

Other information related to the Organization's leases as of December 31 was as follows:

<u>Other Information</u>	<u>2023</u>	<u>2022</u>
Cash Paid for Amounts Included in the		
Measurement of Lease Liabilities:		
Operating Cash Flows from Finance Leases	\$ 221	\$ 284
Operating Cash Flows from Operating Lease	16,421	16,414
Financing Cash Flows from Finance Leases	3,211	3,148
Right-of-Use Assets Obtained in Exchange for New		
Operating Lease Liability	-	1,172,200
Weighted-Average Remaining Lease Term -		
Finance Leases	2.7 Years	3.7 Years
Weighted-Average Remaining Lease Term -		
Operating Leases	2.3 Years	3.3 Years
Weighted-Average Discount Rate - Finance Leases	1.98%	1.98%
Weighted-Average Discount Rate - Operating Leases	2.00%	2.00%

NOTE 10 CONTRIBUTED NONFINANCIAL ASSETS

The Organization received the following contributions of nonfinancial assets for the years ending December 31:

	<u>2023</u>	<u>2022</u>
Meals and Food	\$ 279,792	\$ 305,798
Use of Facilities	182,829	162,232
Supplies	83,146	77,011
Client Assistance	300,163	262,480
Total	<u>\$ 845,930</u>	<u>\$ 807,521</u>

The Organization received contributions of nonfinancial assets consisting of free or reduced rent. During the year ended December 31, 2023, the Organization received reduced rental assistance for a storage space, copier and printers, donation storage, and cottages used for housing for client assistance. The use of facilities is based on the market value to rent the facility based on the lease agreement.

Contributed meals and food, household items, supplies, and other client assistance items are recorded as in-kind contribution revenue and expense when received. They are valued at the fair market value. Donated meals and food are used to feed their client who need assistance. Donated supplies consists of clothing, cleaning supplies, paper products and toiletries which are given to their clients as needed. Client assistance includes various other donations such as gift cards, utilities, and bus vouchers.

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NOTE 11 CONCENTRATIONS

At December 31, 2023, 64% of grants receivable was due from four government agencies or foundations. At December 31, 2022, 100% of grants receivable was due from five government agencies.

For the year ended December 31, 2023, 100% of government contracts was received from five agencies. For the year ended December 31, 2022, 100% of government contracts was received from six agencies.

NOTE 12 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 \$25,873 and \$22,018 to the plan for the years ended December 31, 2023 and 2022, respectively.

NOTE 13 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, 2023, 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 14 SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through September 9, 2024, which is the date the financial statements were available to be issued and has determined that there are no subsequent events that require disclosure.

