Lighthouse Mission Ministries

Financial Statements with
Independent Auditor's Report

Year Ended June 30, 2018
(With Summarized Comparative Totals for the
Year Ended June 30, 2017)

Larson Gross

Lighthouse Mission Ministries

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Larson Gross

Independent Auditor's Report

To the Board of Directors
Lighthouse Mission Ministries
Bellingham, Washington

We have audited the accompanying financial statements of Lighthouse Mission Ministries, which comprise the statement of financial position as of June 30, 2018, the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lighthouse Mission Ministries as of June 30, 2018, 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.

Other Matter
Report on Summarized Comparative Information
We have previously audited Lighthouse Mission Ministries' June 30, 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 24, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Larson Gross PLLC

Bellingham, Washington
October 15, 2018

Lighthouse Mission Ministries

Statement of Financial Position

June 30, 2018

(With Summarized Comparative Totals for June 30, 2017)

Assets

	2018	2017
Cash	$ 676,193	$ 347,052
Inventory	94,983	94,351
Other assets	41,578	43,686
Property and equipment, net	3,239,619	3,266,983
Total assets	$ 4,052,373	$ 3,752,072

Liabilities and Net Assets

	2018	2017
Liabilities		
Accounts payable and accrued expenses	$ 175,918	$ 188,093
Note payable	630,260	664,266
Total liabilities	806,178	852,359
Net assets		
Unrestricted		
Undesignated	3,156,195	2,850,144
Board designated	-	26,581
Total unrestricted	3,156,195	2,876,725
Temporarily restricted	90,000	22,988
Total net assets	3,246,195	2,899,713
Total liabilities and net assets	$ 4,052,373	$ 3,752,072

Lighthouse Mission Ministries

Statement of Activities

Year Ended June 30, 2018

(With Summarized Comparative Totals for Year Ended June 30, 2017)

	Unrestricted	Temporarily Restricted	Totals 2018	Totals 2017
Public support and revenues				
Contributions	$ 2,786,701	$ 90,000	$ 2,876,701	$ 2,289,456
In-kind food and assistance donations	363,931	-	363,931	378,723
Other income	43,447	-	43,447	77,734
Net assets released from restriction	22,988	(22,988)	-	-
Total public support and revenues	3,217,067	67,012	3,284,079	2,745,913
Expenses				
Program services				
Rescue mission	1,433,713	-	1,433,713	1,362,324
Agape home	436,931	-	436,931	508,502
Drop-in center	312,252	-	312,252	184,963
Other programs	27,239	-	27,239	28,292
Total program services	2,210,135	-	2,210,135	2,084,081
Supporting services				
Management and general	237,575	-	237,575	191,361
Fund development	489,887	-	489,887	421,828
Total expenses	2,937,597	-	2,937,597	2,697,270
Increase in net assets	279,470	67,012	346,482	48,643
Net assets – beginning of year	2,876,725	22,988	2,899,713	2,851,070
Net assets – end of year	$ 3,156,195	$ 90,000	$ 3,246,195	$ 2,899,713

Lighthouse Mission Ministries

Statement of Functional Expenses

Year Ended June 30, 2018

(With Summarized Comparative Totals for Year Ended June 30, 2017)

	Program Services					Supporting Services			Totals	
	Rescue Mission	Agape Home	Drop-In Center	Other Programs	Total	Management and General	Fund Development	Total	2018	2017
Salaries	$ 583,257	$ 277,952	$ 196,582	$ -	$ 1,057,791	$ 29,870	$ 181,129	$ 210,999	$ 1,268,790	$ 1,124,707
Benefits	127,588	15,731	19,062	-	162,381	39,531	33,941	73,472	235,853	238,979
Payroll taxes	46,432	27,573	20,027	-	94,032	2,314	15,145	17,459	111,491	106,283
Total salaries, benefits, and payroll taxes	757,277	321,256	235,671	-	1,314,204	71,715	230,215	301,930	1,616,134	1,469,969
Publicity and promotion	-	-	-	-	-	-	211,785	211,785	211,785	171,421
Assistance	171,244	25,113	3,994	6,636	206,987	-	(1,219)	(1,219)	205,768 **	194,459
Food	161,634	1,592	2	-	163,228	-	-	-	163,228 *	239,280
Occupancy	71,249	28,011	21,791	11,105	132,156	6,337	2,008	8,345	140,501	128,793
Supplies	98,208	1,136	11,428	4,034	114,806	12,699	2,969	15,668	130,474	84,661
Professional fees	-	-	23,400	-	23,400	71,320	-	71,320	94,720	60,524
Other	26,268	1,088	3,515	610	31,481	41,103	2,860	43,963	75,444	37,013
Repairs and maintenance	32,669	4,882	9,706	4,815	52,072	4,875	-	4,875	56,947	62,384
Insurance	35,202	-	-	-	35,202	8,411	-	8,411	43,613	41,885
Postage	236	250	-	-	486	50	41,190	41,240	41,726	45,212
Interest	-	8,204	-	-	8,204	17,303	-	17,303	25,507	31,970
Transportation	7,917	-	-	39	7,956	3,762	79	3,841	11,797	9,591
Total expenses before depreciation	1,361,904	391,532	309,507	27,239	2,090,182	237,575	489,887	727,462	2,817,644	2,577,162
Depreciation	71,809	45,399	2,745	-	119,953	-	-	-	119,953	120,108
Total expenses	$ 1,433,713	$ 436,931	$ 312,252	$ 27,239	$ 2,210,135	$ 237,575	$ 489,887	$ 727,462	$ 2,937,597	$ 2,697,270

* Includes $163,228 of in-kind donations
** Includes $134,249 of in-kind donations

Lighthouse Mission Ministries

Statement of Cash Flows

Year Ended June 30, 2018

(With Summarized Comparative Totals for Year Ended June 30, 2017)

	2018	2017
Cash flows from operating activities		
Increase in net assets	$ 346,482	$ 48,643
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	119,954	120,108
Donation of vehicles	(26,793)	-
(Gain) loss on disposal of property and equipment	(2,200)	5,126
Contributions restricted for capital improvements	(90,000)	-
Noncash contributions of food and assistance	(363,931)	(378,723)
Noncash food and assistance expenditures	363,299	375,743
Decrease in assets		
Other assets	2,108	5,692
Decrease in liabilities		
Accounts payable and accrued expenses	(25,245)	(101,611)
Net cash provided by operating activities	323,674	74,978
Cash flows from investing activities		
Purchases of property and equipment, net of proceeds from sales	(50,527)	(4,500)
Net cash used by investing activities	(50,527)	(4,500)
Cash flows from financing activities		
Proceeds from contributions restricted for capital improvements	90,000	-
Principal payments on note payable	(34,006)	(26,080)
Net cash provided by (used in) financing activities	55,994	(26,080)
Net increase in cash	329,141	44,398
Cash – beginning of year	347,052	302,654
Cash – end of year	$ 676,193	$ 347,052
Supplemental Disclosures of Cash Flow Information		
Cash paid for interest on loan	$ 25,507	$ 31,970
Fixed asset purchased through accounts payable	$ 13,070	$ -

Note 1 – Summary of Significant Accounting Policies

Nature of activities – Lighthouse Mission Ministries (the Organization) is a voluntary health and welfare organization established in 1923 as a religious and charitable organization to conduct rescue mission work. The Organization's programs are comprised of serving the spiritual and human needs of homeless persons in the local community. It operates a four-building campus that includes nine different overnight shelters, a drop-in center, an eye clinic, and a childcare center at its Holly Street location in Bellingham, Washington.

Basis of accounting – The financial statements of the Organization have been prepared on the accrual basis of accounting and accordingly reflect all significant assets, payables, and other liabilities.

Basis of presentation and revenue recognition – The Organization presents its financial statements in accordance with ASC 958. Under this standard, the Organization is required to present its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted, depending on the existence and nature of donor restrictions.

> *Unrestricted* – Support received that is not subject to donor-imposed restrictions and over which the Board of Directors has discretionary control is classified as unrestricted.
>
> *Temporarily Restricted* – Support received subject to donor-imposed restrictions or time restrictions that will be met either through actions of the Organization or by passage of time is classified as temporarily restricted.
>
> *Permanently Restricted* – Support received subject to donor-imposed restrictions stipulating that assets be invested in perpetuity is classified as permanently restricted. In accordance with purposes stipulated by donors, earnings from such assets may be unrestricted, temporarily restricted, or permanently restricted.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Restricted net assets are reclassified to unrestricted net assets upon satisfaction of the time or purpose of restrictions. When donor restrictions are met during the same period that the contribution is received, the contribution is recorded as unrestricted net assets.

Cash – The Organization maintains its cash in a bank account that may exceed federally insured limits at times during the year. The Organization has not experienced any losses in this account, and management does not believe it is exposed to any significant credit risk.

Inventory – Inventory is recorded at the lower of cost or market. Inventory is recorded using first in, first out method. Inventory represents food and supplies on hand as of year-end.

Note 1 – Summary of Significant Accounting Policies – (Continued)

Property and equipment – The Organization capitalizes all property and equipment acquisitions in excess of $2,500. Property and equipment acquisitions are recorded at cost. Additions, improvements, or expenditures which add to productive capacity or extend the life of an asset are capitalized. Expenditures for repairs and maintenance are charged to operations as incurred. Depreciation is recorded using the straight-line method over estimated useful lives of the assets, which range from 5 to 40 years.

Contributions – Contribution revenue is recognized in the period received or when an unconditional promise to give is made, whichever is earlier. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

Donated goods and services – Donations of food, clothing, equipment, and other goods are recorded as support at their estimated fair market value at the date of donation. Expenses are recorded at the time the donated food and other goods are consumed. Donated services are recognized if services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased. In addition, many volunteers have donated significant amounts of time to the Organization's activities. The services of these volunteers are not recorded in the accompanying financial statements as they do not meet the criteria for recognition under ASC 958-605-25-16, *Not-for-Profit Entities – Recognition of Contributed Services.*

Advertising – The Organization expenses advertising costs as they are incurred. Advertising expense totaled $120,682 and $89,011 for the years ended June 30, 2018 and 2017, respectively.

Federal income tax – The Mission is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. Under this section, the Mission is not required to file a federal income tax return as it operates as a Church. As of June 30, 2018, the Organization had no uncertain tax positions requiring accrual. As of June 30, 2018, the prior three fiscal years remain subject to examination by major tax jurisdictions.

Functional allocation of expenses – The costs of providing various programs and other activities have been summarized on the functional basis in the statement of activities and in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

ASC 958 identifies certain criteria related to the purpose, audience, and content of an organization's activities. If the criteria are met, costs of an activity should be allocated between program, fund raising, and management and general functions. If the criteria are not met, all costs of an activity should be reported as fund raising costs, including costs that might otherwise be considered program costs or management and general costs had they been incurred in a different activity.

Note 1 – Summary of Significant Accounting Policies – (Continued)

Functional allocation of expenses (continued) – The Organization prints and distributes newsletters and other promotional material and sponsors certain special events, all of which include a fund development appeal. Expenses related to volunteer recruitment are also considered fund development costs. These activities do not meet certain of the criteria specified in ASC 958; and, accordingly, all costs of these activities have been charged to fund development.

Use of estimates – The preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Significant estimates include depreciable lives of property and equipment and allocation of expenses between program and supporting services.

Subsequent events – In preparing the financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through October 15, 2018. The date that the financial statements were available to be issued.

Note 2 – Property and Equipment

Property and equipment consist of the following as of June 30:

	2018	2017
Property and equipment, not being depreciated or amortized		
Land	$ 512,056	$ 512,056
Property and equipment, being depreciated and amortized		
Buildings and improvements	3,977,661	3,962,303
Furnitures and fixtures	141,776	141,776
Machinery and equipment	101,146	106,303
Vehicles	96,218	53,764
Land improvements	13,348	13,348
Intangibles	12,100	4,500
Property and equipment at cost	4,854,305	4,794,050
Less accumulated depreciation	(1,614,686)	(1,527,067)
Property and equipment, net	$ 3,239,619	$ 3,266,983

Total depreciation and amortization expense for the years ended June 30, 2018 and 2017, totaled $119,953 and $120,108, respectively.

Note 3 – Note Payable

Notes payable consist of the following at June 30:

	2018	2017
Loan payable to Lighthouse Mission Foundation due in installments of $4,500 per month. A portion is financed at a fixed five year rate of 3.69%, another portion is financed at a fixed seven year rate of 3.82% and the remainder is at a variable rate, which was 3.75% as of June 30, 2018.	$ 630,260	$ -
Mortgage note payable to Heritage Bank due in installments of $4,838 per month, including interest at Index plus 2.20%. The note contained a floor rate of 4.57%. The index is the five year long-term fixed rate as published by the Federal Home Loan Bank of Seattle. The mortgage was secured by deed of trust on real estate and was paid in full August 2017.	-	664,266
	630,260	664,266
Less current portion	(33,000)	(28,300)
Note payable, net of current portion	$ 597,260	$ 635,966

Scheduled future principal payments on the note payable are as follows at June 30:

2019	$ 33,000
2020	34,100
2021	35,400
2022	36,700
2023	38,100
Thereafter	452,960
	$ 630,260

In August 2017, Lighthouse Mission Ministries Foundation was approved by Morgan Stanley for a $1,000,000 liquidity access line and used a portion of the available funds to buy-out the Organization's long-term debt at Heritage Bank (see note 6 for further details).

Note 4 – Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following at June 30:

	2018	2017
Drop-in Center	$ 90,000	$ 5,000
Other programs and capital projects	-	17,988
	$ 90,000	$ 22,988

Note 5 – Tax-Sheltered Annuity Plan

In 2006, the Organization adopted a qualified tax-sheltered annuity plan under 403(b) of the IRS Code. The Plan is non-discriminatory and the Organization contributes three percent of salary annually. The Organization also matches up to two percent of each employee's tax deferred compensation withheld under the Plan. The amounts withheld from compensation and the Organization's contribution vest immediately with the employee. The amount of contributions made by the Organization is $31,462 and $27,106 for the years ended June 30, 2018 and 2017, respectively.

Note 6 – Related Party Transactions

The Organization receives legal services from a member of the Board of Directors at no cost to the Organization. In-kind contributions of $5,635 and $5,163 were recognized as of June 30, 2018 and 2017, respectively, related to these services.

A liability had been recorded as of June 30, 2016, for $114,800 to accrue a severance package provided to a former key member of management. It was originally anticipated that this liability would be paid out at approximately $4,100 per month through October 2018. During the year ended June 30, 2017, a change in estimate was considered necessary as the estimated insurance costs, an element of the severance package, were significantly lower than expected. Therefore, a gain on change in estimate totaling $47,594 was recognized and is included in other income on the statement of activities at June 30, 2017. The liability balance totaled $11,301 and $34,000 at June 30, 2018 and 2017, respectively, and is anticipated to be paid out at approximately $2,450 per month through October 2018.

Lighthouse Mission Ministries Foundation (the Foundation) is a related party, which exists to support the Organization. While the Organization has an economic interest in the Foundation, the Organization lacks the prerequisite level of control over the Foundation to require consolidation. Thus, the Foundation's financial statements are not consolidated within the Organization's financial statements at either June 30, 2018 or 2017. In September 2017, the Organization recorded a liability to the Foundation for a loan that was used to pay off the Organization's mortgage balance with Heritage Bank. The Organization pays $4,500 per month to the Foundation. The balance of the loan was $630,260 at June 30, 2018.

During the year ended June 30, 2018, no contributions from the Foundation were received. During the year ended June 30, 2017, the Organization received contributions totaling $10,000 from the Foundation.

Note 7 – Recent Accounting Pronouncement

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-09, "Revenue from Contracts with Customers", which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. ASU 2014-09 and subsequent amendments outline a five-step process for revenue recognition that focuses on transfer of control, as opposed to transfer of risk and rewards, and also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenues and cash flows from contracts with customers. Major provisions include determining which goods and services are distinct and represent separate performance obligations, how variable consideration (which may include change orders and claims) is recognized, whether revenue should be recognized at a point in time or over time and ensuring the time value of money is considered in the transaction price. This guidance may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. Application is required for annual periods beginning after December 15, 2018. The Organization continues to evaluate the impact of the new accounting guidance on its financial statements.