Lighthouse Mission Ministries

Financial Statements with
Independent Auditor's Report

Year Ended June 30, 2019
(With Summarized Comparative Totals for the
Year Ended June 30, 2018)

Larson Gross

Lighthouse Mission Ministries

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Independent Auditor's Report

To the Board of Directors
Lighthouse Mission Ministries
Bellingham, Washington

Report on the Financial Statements
We have audited the accompanying financial statements of Lighthouse Mission Ministries (the Organization), which comprise the statement of financial position as of June 30, 2019, 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 qualified audit opinion.

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Basis for Qualified Opinion
Due to the inadequacy of support maintained for inventory, we were unable to obtain sufficient appropriate audit evidence regarding the amounts at which inventory is recorded in the accompanying statement of financial position at June 30, 2019 (stated at $103,557). Additionally, the Organization's process for valuing inventory is not consistent with the values recorded at the time of the donation.

Qualified Opinion
In our opinion, except for the effects of the matter discussed in the Basis for Qualified Opinion paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Lighthouse Mission Ministries as of June 30, 2019, and the changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter
As discussed in Note 1 to the financial statements, during the year ended June 30, 2019, Lighthouse Mission Ministries adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) 2016-14, *"Not-for-Profits Entities (Topic 958) – Presentation of Financial Statements for Not-for-Profit Entities."* The update addresses the complexity and understandability of net assets restrictions, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment returns. The ASU has been applied retrospectively to all periods presented. Our opinion is not modified with respect to this matter.

Other Matter
Report on Summarized Comparative Information
We have previously audited Lighthouse Mission Ministries' June 30, 2018, financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 15, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Larson Gross PLLC

Bellingham, Washington
November 26, 2019

Lighthouse Mission Ministries

Statement of Financial Position

June 30, 2019

(With Summarized Comparative Totals for June 30, 2018)

	2019	2018
Assets		
Cash	$ 565,647	$ 676,193
Due from related party	500,000	-
Inventory	103,557	94,983
Other assets	39,319	41,578
Property and equipment, net	3,145,447	3,239,619
Total assets	$ 4,353,970	$ 4,052,373
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	$ 147,980	$ 175,918
Note payable – related party	598,389	630,260
Total liabilities	746,369	806,178
Net assets		
Without donor restrictions	3,089,752	3,128,895
With donor restrictions	517,849	117,300
Total net assets	3,607,601	3,246,195
Total liabilities and net assets	$ 4,353,970	$ 4,052,373

Lighthouse Mission Ministries

Statement of Activities

Year Ended June 30, 2019

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

	Without Donor Restrictions	With Donor Restrictions	Totals 2019	Totals 2018
Public support and revenue				
Contributions	$ 2,729,417	$ 400,000	$ 3,129,417	$ 2,876,701
In-kind food and assistance donations	679,372	-	679,372	363,931
Other income	35,572	549	36,121	43,447
Net assets released from restriction	-	-	-	-
Total public support and revenue	3,444,361	400,549	3,844,910	3,284,079
Expenses				
Program services	2,462,189	-	2,462,189	2,210,135
Supporting services				
Management and general	392,905	-	392,905	237,575
Fundraising	628,410	-	628,410	489,887
Total expenses	3,483,504	-	3,483,504	2,937,597
Increase (decrease) in net assets	(39,143)	400,549	361,406	346,482
Net assets – beginning of year	3,128,895	117,300	3,246,195	2,899,713
Net assets – end of year	$ 3,089,752	$ 517,849	$ 3,607,601	$ 3,246,195

Lighthouse Mission Ministries

Statement of Functional Expenses

Year Ended June 30, 2019

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

	Program Services	Management and General	Fundraising	Totals 2019		Totals 2018
Salaries	$ 981,400	$ 162,654	$ 250,978	$ 1,395,032		$ 1,268,790
Benefits	137,656	62,978	40,005	240,639		235,853
Payroll taxes	89,474	8,255	21,085	118,814		111,491
Total salaries, benefits, and payroll taxes	1,208,530	233,887	312,068	1,754,485		1,616,134
Assistance	337,531	-	-	337,531	**	205,768
Food	279,690	-	-	279,690	*	163,228
Publicity and promotion	561	-	227,095	227,656		211,785
Professional fees	99,134	81,688	-	180,822		94,720
Occupancy	145,192	4,440	2,148	151,780		140,501
Supplies	111,013	5,291	1,841	118,145		130,474
Other	55,273	31,844	5,367	92,484		64,054
Postage	537	36	46,708	47,281		41,726
Insurance	41,020	4,921	-	45,941		43,613
Repairs and maintenance	39,560	1,203	576	41,339		56,947
Staff development	2,822	5,141	32,079	40,042		11,390
Interest	-	22,129	-	22,129		25,507
Transportation	14,143	2,325	528	16,996		11,797
Total expenses before depreciation and amortization	2,335,006	392,905	628,410	3,356,321		2,817,644
Depreciation and amortization	127,183	-	-	127,183		119,953
Total expenses	$ 2,462,189	$ 392,905	$ 628,410	$ 3,483,504		$ 2,937,597

* Includes $279,690 of in-kind donations

** Includes $287,423 of in-kind donations

The accompanying notes are an integral part of these financial statements.

Lighthouse Mission Ministries

Statement of Cash Flows

Year Ended June 30, 2019

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

	2019	2018
Cash flows from operating activities		
Increase in net assets	$ 361,406	$ 346,482
Adjustments to reconcile increase in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	127,183	119,954
Donation of vehicles	-	(26,793)
Gain on disposal of property and equipment	(8,000)	(2,200)
Contributions received and held by related party on behalf of the Organization	(500,000)	-
Contributions restricted for capital improvement	-	(90,000)
Noncash contributions of food and assistance	(679,372)	(363,931)
Noncash food and assistance expenditures	670,798	363,299
Decrease in other assets	2,259	2,108
Decrease in accounts payable and accrued expenses	(27,938)	(25,245)
Net cash provided (used) by operating activities	(53,664)	323,674
Cash flows from investing activities		
Purchases of property and equipment, net of proceeds from sales	(25,011)	(50,527)
Net cash used by investing activities	(25,011)	(50,527)
Cash flows from financing activities		
Proceeds from contributions restricted for capital improvements	-	90,000
Principal payments on note payable	(31,871)	(34,006)
Net cash provided (used) by financing activities	(31,871)	55,994
Net increase (decrease) in cash	(110,546)	329,141
Cash – beginning of year	676,193	347,052
Cash – end of year	$ 565,647	$ 676,193
Supplemental Disclosures of Cash Flow Information		
Cash paid for interest on loan	$ 22,129	$ 25,507
Fixed asset purchased through accounts payable	$ -	$ 13,070

The accompanying notes are an integral part of these financial statements.

Note 1 – Summary of Significant Accounting Policies

Nature of activities – Lighthouse Mission Ministries (the Organization) is a Washington State nonprofit corporation 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 – Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

> *Net assets without donor restrictions* – Support received that is not subject to donor-imposed restrictions and over which the Board of Directors has discretionary control is classified as net assets without donor restrictions.
>
> *Net assets with donor restrictions* – 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 are classified as net assets with donor restrictions. This includes donor-imposed restrictions stipulating that assets be invested in perpetuity. In accordance with purposes stipulated by donors, earnings from such assets may be classified as net assets without donor restrictions or net assets with donor restrictions.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Net assets with donor restrictions are reclassified to net assets without donor restrictions 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 without donor restrictions.

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 and services are recorded as support at their estimated fair market value at the date of donation. Donated goods totaled $574,549 and $340,531 for the years ended June 30, 2019 and 2018, respectively. 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. Donated services totaled $104,823 and $23,400 for the years ended June 30, 2019 and 2018, respectively. 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.

Advertising – The Organization expenses advertising costs as they are incurred. Advertising expense totaled $124,934 and $120,682 for the years ended June 30, 2019 and 2018, 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, 2019, the Organization had no uncertain tax positions requiring accrual. The Organization is exempt from filing United States federal income tax returns under Section 6033(a)(3)(A)(i).

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 and have been allocated on a reasonable basis that is consistently applied.

The method of allocation applied to expenses is as follows:

> **Time and effort:** Salaries, benefits, and payroll taxes
> **Estimates of usage:** Occupancy and insurance
> **Direct allocation:** Publicity and promotion, supplies, professional fees, repairs and maintenance, transportation, depreciation, and other

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

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.

New accounting pronouncement – In August of 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *"Not-for-Profits Entities (Topic 958) – Presentation of Financial Statements for Not-for-Profit Entities."* The amendments provided by this update address the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The ASU is effective for fiscal years beginning after December 15, 2017 and was applied retrospectively to all periods presented.

Reclassifications – Certain reclassifications have been made to the prior year's financial statements to conform to the current year's financial statement presentation.

Subsequent events – In preparing the financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through November 26, 2019. The date that the financial statements were available to be issued.

Note 2 – Liquidity and Availability

Financial assets available for general expenditure within one year of June 30, 2019, consist of the following:

Cash	$ 565,647
Due from related party	500,000
Less amounts not available for general expenditure	
Donor-restricted for Drop-in Center	(490,000)
	$ 575,647

The Organization has certain donor-restricted assets limited to use which are not available for general expenditures within one year in the normal course of operations. Accordingly, these assets have been excluded in the qualitative information above. The goal of the Organization is to maintain four months of cash to cover operating expenses. Cash amounts exceeding the four-month goal may be invested in short term investments. As of June 30, 2019, the Organization has a working capital of $1,026,443 and average days (based on normal expenditures) cash on hand of 62.

Note 3 – Property and Equipment

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

	2019	2018
Property and equipment, not being depreciated or amortized		
Land	$ 512,056	$ 512,056
Property and equipment, being depreciated and amortized		
Buildings and improvements	3,983,940	3,977,661
Furnitures and fixtures	137,499	141,777
Machinery and equipment	103,571	101,145
Vehicles	97,789	96,218
Land improvements	13,348	13,348
Intangibles – website development	12,100	12,100
Property and equipment at cost	4,860,303	4,854,305
Less accumulated depreciation and amortization	(1,714,856)	(1,614,686)
Property and equipment, net	$ 3,145,447	$ 3,239,619

Total depreciation and amortization expense for the years ended June 30, 2019 and 2018, totaled $127,183 and $119,953, respectively.

Note 4 – Note Payable – Related Party

Notes payable to a related party consist of the following at June 30:

	2019	2018
Loan payable to Lighthouse Mission Ministries 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 4.05% as of June 30, 2019. The loan is unsecured and remaining unpaid balance is due in September 2024.	$ 598,389	$ 630,260
	598,389	630,260
Less current portion	(34,100)	(33,000)
Note payable, net of current portion	$ 564,289	$ 597,260

Note 4 – Note Payable – (Continued)

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

2020	$	34,100
2021		35,400
2022		36,700
2023		38,100
2024		39,500
Thereafter		414,589
	$	598,389

Note 5 – Net Assets with Donor Restrictions

Net assets with donor restrictions consist of the following at June 30:

		2019		2018
Drop-in Center	$	490,000	$	90,000
Interest in other assets held by a community foundation		27,849		27,300
	$	517,849	$	117,300

Note 6 – Tax-Sheltered Annuity Plan

In 2006, the Organization adopted a qualified tax-sheltered annuity plan (the Plan) under 403(b) of the IRS Code available to all full-time employees. 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 totaled $31,225 and $31,462 for the years ended June 30, 2019 and 2018, respectively.

Note 7 – Program Expenses

The total program expenses presented on the statement of functional expenses may be further broken out by program as follows at June 30, 2019:

	2019	2018
Rescue Mission	$ 1,153,027	$ 1,365,965
Drop-In Center	628,541	312,252
Agape Home	394,140	436,931
New Life Program	159,386	90,758
Street Connect	101,145	-
Other	25,950	4,229
	$ 2,462,189	$ 2,210,135

Note 8 – 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 $1,500 and $5,635 were recognized as of June 30, 2019 and 2018, 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, but was decreased to approximately $2,450 per month during the year ended June 30, 2017. The liability balance totaled $-0- and $11,301 at June 30, 2019 and 2018, respectively.

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, 2019 or 2018. 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 $598,389 and 630,260 at June 30, 2019 and 2018, respectively.

During the years ended June 30, 2019 and 2018, no contributions from the Foundation were received. During the year ended June 30, 2019, the Organization was named as beneficiary of contributions totaling $500,000, but which the Foundation received and held in its money market account at June 30, 2019. These funds are presented as due from related party on the statement of financial position at June 30, 2019.

Note 9 – Recent Accounting Pronouncement

In February 2016, the FASB issued ASU 2016-02, "Leases" which requires lessees to record most leases with terms greater than 12 months on their balance sheet by recognizing a liability to make lease payments and an asset representing their right to use the asset during the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election, by class of underlying asset, not to recognize the corresponding assets and lease liabilities. Lessee recognition, measurement, and presentation of expenses and cash flows will not change significantly from existing guidance and lessor accounting is largely unchanged. ASU 2016-02 also changes the definition of a lease and requires qualitative and quantitative disclosures that provide information about the amount, timing, and uncertainty of cash flows arising from leases. Application is required for annual periods beginning after December 15, 2019. The Organization continues to evaluate the impact of the new accounting guidance on its financial statements.