

Lighthouse Mission Ministries

Financial Statements with
Independent Auditor's Report

Year Ended June 30, 2020
(With Summarized Comparative Totals for the
Year Ended June 30, 2019)

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, 2020, 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.

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, 2020 (stated at \$110,513). 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, 2020, 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.

Report on Summarized Comparative Information

We have previously audited Lighthouse Mission Ministries' June 30, 2019, financial statements, and we expressed a qualified audit opinion on those audited financial statements in our report dated November 26, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Larson Gross PLLC

Bellingham, Washington
January 14, 2021

Lighthouse Mission Ministries

Statement of Financial Position

June 30, 2020

(With Summarized Comparative Totals for June 30, 2019)

	<u>2020</u>	<u>2019</u>
Assets		
Cash	\$ 1,346,473	\$ 565,647
Due from related party	450,000	500,000
Inventory	110,513	103,557
Other assets	179,807	39,319
Rent receivable, net	426,597	-
Property and equipment, net	<u>3,070,420</u>	<u>3,145,447</u>
Total assets	<u>\$ 5,583,810</u>	<u>\$ 4,353,970</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 232,473	\$ 147,980
Note payable – related party	563,676	598,389
Note payable – Payroll Protection Program	<u>326,000</u>	<u>-</u>
Total liabilities	1,122,149	746,369
Net assets		
Without donor restrictions	3,517,370	3,089,752
With donor restrictions	<u>944,291</u>	<u>517,849</u>
Total net assets	<u>4,461,661</u>	<u>3,607,601</u>
Total liabilities and net assets	<u>\$ 5,583,810</u>	<u>\$ 4,353,970</u>

Lighthouse Mission Ministries

Statement of Activities

Year Ended June 30, 2020

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

	Without Donor	With Donor	Totals	
	Restrictions	Restrictions	2020	2019
Public support and revenue				
Contributions	\$ 3,447,227	\$ 5,350	\$ 3,452,577	\$ 3,129,417
In-kind donations	772,974	426,597	1,199,571	679,372
Other income	118,764	1,428	120,192	36,121
Net assets released from restriction	<u>6,933</u>	<u>(6,933)</u>	<u>-</u>	<u>-</u>
Total public support and revenue	4,345,898	426,442	4,772,340	3,844,910
Expenses				
Program services	2,809,533	-	2,809,533	2,462,189
Supporting services				
Management and general	491,570	-	491,570	392,905
Fundraising	<u>617,177</u>	<u>-</u>	<u>617,177</u>	<u>628,410</u>
Total expenses	<u>3,918,280</u>	<u>-</u>	<u>3,918,280</u>	<u>3,483,504</u>
Increase in net assets	427,618	426,442	854,060	361,406
Net assets – beginning of year	<u>3,089,752</u>	<u>517,849</u>	<u>3,607,601</u>	<u>3,246,195</u>
Net assets – end of year	<u>\$ 3,517,370</u>	<u>\$ 944,291</u>	<u>\$ 4,461,661</u>	<u>\$ 3,607,601</u>

Lighthouse Mission Ministries

Statement of Functional Expenses

Year Ended June 30, 2020

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

	Program Services	Management and General		Totals	
		Fundraising	2020	2019	
Salaries	\$ 1,187,299	\$ 242,557	\$ 208,965	\$ 1,638,821	\$ 1,395,032
Benefits	166,672	76,660	69,566	312,898	240,639
Payroll taxes	108,090	12,609	18,762	139,461	118,814
Total salaries, benefits, and payroll taxes	1,462,061	331,826	297,293	2,091,180	1,754,485
Occupancy	474,965	4,031	5,106	484,102 ***	151,780
Assistance	287,125	14	10,863	298,002 **	337,531
Publicity and promotion	1,006	2,341	252,867	256,214	227,656
Food	180,986	-	-	180,986 *	279,690
Professional fees	46,371	88,571	708	135,650	180,822
Supplies	76,968	3,225	4,389	84,582	118,145
Other	43,500	25,909	8,187	77,596	92,484
Repairs and maintenance	40,037	7,031	1,884	48,952	41,339
Insurance	42,455	-	-	42,455	45,941
Postage	556	13	34,893	35,462	47,281
Interest	-	19,287	-	19,287	22,129
Staff development	10,491	5,822	463	16,776	40,042
Transportation	11,611	3,500	524	15,635	16,996
Total expenses before depreciation and amortization	2,678,132	491,570	617,177	3,786,879	3,356,321
Depreciation and amortization	131,401	-	-	131,401	127,183
Total expenses	<u>\$ 2,809,533</u>	<u>\$ 491,570</u>	<u>\$ 617,177</u>	<u>\$ 3,918,280</u>	<u>\$ 3,483,504</u>

* Includes \$180,986 of in-kind donations

** Includes \$244,360 of in-kind donations

*** Includes \$328,990 of in-kind rent

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

Lighthouse Mission Ministries

Statement of Cash Flows

Year Ended June 30, 2020

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

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities		
Increase in net assets	\$ 854,060	\$ 361,406
Adjustments to reconcile increase in net assets to net cash provided (used) by operating activities:		
Contribution of right to use noncash assets, net of discount	(426,597)	-
Depreciation and amortization	131,401	127,183
(Gain) loss on disposal of property and equipment	489	(8,000)
Decrease (increase) in amount due from related party	50,000	(500,000)
Noncash contributions of food, assistance and rent	(1,199,571)	(679,372)
Noncash food, assistance and rent expenditures	1,192,615	670,798
(Increase) decrease in other assets	(140,488)	2,259
Increase (decrease) in accounts payable and accrued expenses	<u>84,493</u>	<u>(27,938)</u>
Net cash provided (used) by operating activities	546,402	(53,664)
Cash flows from investing activities		
Purchases of property and equipment, net of proceeds from sales	<u>(56,863)</u>	<u>(25,011)</u>
Net cash used by investing activities	(56,863)	(25,011)
Cash flows from financing activities		
Proceeds from note payable - Payroll Protection Program	326,000	-
Principal payments on note payable	<u>(34,713)</u>	<u>(31,871)</u>
Net cash provided (used) by financing activities	<u>291,287</u>	<u>(31,871)</u>
Net increase (decrease) in cash	780,826	(110,546)
Cash – beginning of year	<u>565,647</u>	<u>676,193</u>
Cash – end of year	<u>\$ 1,346,473</u>	<u>\$ 565,647</u>
Supplemental Disclosures of Cash Flow Information		
Cash paid for interest on note payable	<u>\$ 19,287</u>	<u>\$ 22,129</u>

Notes to Financial Statements

June 30, 2020 and 2019

(See Independent Auditor's Report)

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 Organization prepares its financial statements in accordance with accounting principles generally accepted in the United States of America, which involves the application of accrual accounting; accordingly, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

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.

Lighthouse Mission Ministries

Notes to Financial Statements

June 30, 2020 and 2019

(See Independent Auditor's Report)

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, services, and rent – Donations of supplies, equipment, and other goods, services, and rent are recorded at fair value on the date of receipt. Donated services are recognized if services received (a) create or enhance nonfinancial assets or (b) require specialized skills, and are provided by individuals possessing those skills and would typically need to be purchased if not donated. 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 Accounting Standard Codification (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 \$131,286 and \$124,934 for the years ended June 30, 2020 and 2019, 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, 2020, 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

Lighthouse Mission Ministries

Notes to Financial Statements

June 30, 2020 and 2019

(See Independent Auditor's Report)

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, gift in-kind donation valuation, discount on long-term rent receivable and allocation of expenses between program and supporting services.

Comparative financial information – The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with The Organization's financial statements for the year ended June 30, 2019, from which the summarized information was derived

Subsequent events – In preparing the financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through January 14, 2021. The date that the financial statements were available to be issued.

Note 2 – Liquidity and Availability

The following represents the Organization's financial assets available for general expenditure during the next year as of June 30:

	<u>2020</u>	<u>2019</u>
Cash	\$ 1,346,473	\$ 565,647
Due from related party	450,000	500,000
Less amounts not available for general expenditure		
Donor-restricted for Scholarships	(5,350)	-
Donor-restricted for Drop-in Center	(484,580)	(490,000)
	<u>\$ 1,306,543</u>	<u>\$ 575,647</u>

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, 2020, the Organization has a working capital of \$1,960,619 and average days (based on normal expenditures) cash on hand of 130.

Lighthouse Mission Ministries

Notes to Financial Statements

June 30, 2020 and 2019

(See Independent Auditor's Report)

Note 3 – Rent Receivable

The Organization entered into a 3 year lease with the City of Bellingham in June 2020, with an option to extend in the 4th year, for property to house the Organization's Drop-in Center program. The Drop-in Center program is used to stabilize incoming guests, introduce them to a lifesaving relationship with Jesus Christ, offer homeless assessment, and provide a motivational environment that encourages life-change. The Organization is not required to make any rent payments under the terms of this lease for the first 3 years. As such, the Organization has recognized non-cash contribution revenue, rent expense, and rent receivable based on the estimated fair value of the benefit to be received by the Organization over the term of the lease. The rent receivable related to this lease is expected to be collected through use of the property as follows at June 30:

	<u>2020</u>	<u>2019</u>
Within one year	\$ 150,636	\$ -
In one to three years	<u>301,272</u>	<u>-</u>
Total rent receivable	451,908	-
Less: Unamortized discount to fair value (at 4%)	<u>(25,311)</u>	<u>-</u>
Total rent receivable, net	<u>\$ 426,597</u>	<u>\$ -</u>

Note 4 – Property and Equipment

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

	<u>2020</u>	<u>2019</u>
Property and equipment, not being depreciated or amortized		
Land	\$ 512,056	\$ 512,056
Property and equipment, being depreciated and amortized		
Buildings and improvements	4,019,949	3,983,940
Furnitures and fixtures	136,509	137,499
Machinery and equipment	116,319	103,571
Vehicles	105,289	97,789
Land improvements	13,348	13,348
Intangibles – website development	<u>12,100</u>	<u>12,100</u>
Property and equipment at cost	4,915,570	4,860,303
Less accumulated depreciation and amortization	<u>(1,845,150)</u>	<u>(1,714,856)</u>
Property and equipment, net	<u>\$ 3,070,420</u>	<u>\$ 3,145,447</u>

Total depreciation and amortization expense for the years ended June 30, 2020 and 2019, totaled \$131,401 and \$127,183, respectively.

Lighthouse Mission Ministries

Notes to Financial Statements

June 30, 2020 and 2019

(See Independent Auditor's Report)

Note 5 – Note Payable – Related Party

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

	<u>2020</u>	<u>2019</u>
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 3.63% as of June 30, 2020. The loan is unsecured and remaining unpaid balance is due in September 2024.	\$ 563,676	\$ 598,389
Less current portion	<u>(35,900)</u>	<u>(34,100)</u>
Note payable, net of current portion	<u>\$ 527,776</u>	<u>\$ 564,289</u>

Scheduled future principal payments on the note payable are as follows for the twelve months ending June 30:

2021	\$ 35,900
2022	36,700
2023	38,100
2024	39,500
2025	<u>413,476</u>
	<u>\$ 563,676</u>

Note 6 – Note Payable – Payroll Protection Program

In April 2020, the Organization received a \$326,000 loan from the Federal Payroll Protection Program. This loan accrues interest at 1% and is guaranteed by the Small Business Administration. Subsequent to year-end in December 2020, this loan was fully forgiven based on the Organization's use of funds which met the criteria for such forgiveness.

Lighthouse Mission Ministries

Notes to Financial Statements

June 30, 2020 and 2019

(See Independent Auditor's Report)

Note 7 – Net Assets with Donor Restrictions

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

	<u>2020</u>	<u>2019</u>
Drop-in Center	\$ 484,580	\$ 490,000
Time restricted – rent receivable	426,597	-
Interest in other assets held by a community foundation	27,764	27,849
Scholarship	5,350	-
	<u>\$ 944,291</u>	<u>\$ 517,849</u>

Note 8 – 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 \$34,915 and \$31,225 for the years ended June 30, 2020 and 2019, respectively.

Note 9 – 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:

	<u>2020</u>	<u>2019</u>
Rescue Mission	\$ 1,031,954	\$ 1,153,027
Drop-In Center	963,312	628,541
Agape Home	401,748	394,140
Street Connect	209,505	101,145
Other	158,507	25,950
New Life Program	43,857	159,386
Scholarships	650	-
	<u>\$ 2,809,533</u>	<u>\$ 2,462,189</u>

Lighthouse Mission Ministries

Notes to Financial Statements

June 30, 2020 and 2019

(See Independent Auditor's Report)

Note 10 – Related Party Transactions

The Organization receives legal services from a member of the Board of Directors at no cost to the Organization. No services were received from board members during the twelve months ended June 30, 2020. In-kind contributions of \$1,500 were recognized during the twelve months ended June 30, 2019 related to these services.

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, 2020 or 2019. 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 \$563,676 and \$598,389 at June 30, 2020 and 2019, respectively.

The Organization received contributions of \$50,000 and \$0 from the Foundation during the years ended June 30, 2020 and 2019, respectively. 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. The remaining funds held by the Foundation are presented as due from related party on the statement of financial position at June 30, 2020.

Note 11 – Risks and Uncertainties

The Organization is subject to risks and uncertainties as a result of the COVID-19 pandemic. The extent of the impact of the COVID-19 pandemic on the Organization's business is uncertain and difficult to predict. The Organization's operational and financial performance will depend on future developments, including the duration of the outbreak, operational limitations imposed by federal, state and local governments with respect to physical distancing measures, and demand for the organization's services. All the effects of the COVID-19 pandemic could have a significant adverse effect on the Organization's operations. Although the ultimate severity of the COVID-19 pandemic is uncertain at this time, the Organization has implemented several new initiatives to adapt operations to the current environment.

Note 12 – Impact of Accounting Method Change

The FASB issued new guidance that created Topic 606, *Revenue from Contracts with Customers*, in the ASC. Topic 606 supersedes the revenue recognition requirements in FASB ASC 605, *Revenue Recognition*, and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services.

Notes to Financial Statements

June 30, 2020 and 2019

(See Independent Auditor's Report)

Note 12 – Impact of Accounting Method Change – (Continued)

The Organization adopted the requirements of the new guidance as of July 1, 2019, utilizing the modified retrospective method of transition and is applying the practical expedient provided in Topic 606 that allows new guidance to be applied to only contracts that were not considered substantially complete. Under this method, any cumulative effects of initially applying the new guidance are recognized as an adjustment to net assets on the statement of financial position as of July 1, 2019. The Organization did not recognize any adjustments in revenue, net assets, or any other financial statement line item as a result of adopting ASC 606 using the modified retrospective method.

Note 13 – 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, 2021. The Organization continues to evaluate the impact of the new accounting guidance on its financial statements.