

**UNION GOSPEL MISSION ASSOCIATION
OF ST. PAUL**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEARS ENDED SEPTEMBER 30, 2018 AND 2017

**UNION GOSPEL MISSION ASSOCIATION OF ST. PAUL
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Union Gospel Mission Association of St. Paul
St. Paul, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of Union Gospel Mission Association of St. Paul (a Minnesota corporation), which comprise the balance sheets as of September 30, 2018 and 2017, and the related statements of activities, functional expense, and cash flows for the years 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 auditors' 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Union Gospel Mission Association of St. Paul as of September 30, 2018 and 2017, 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.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



CliftonLarsonAllen LLP

Minneapolis, Minnesota
February 11, 2019

**UNION GOSPEL MISSION ASSOCIATION OF ST. PAUL
BALANCE SHEETS
SEPTEMBER 30, 2018 AND 2017**

ASSETS	2018	2017
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 824,236	\$ 1,044,155
Accounts Receivable (Net of Allowance of \$2,000 Each Year)	29,120	180,624
Pledges Receivable - Current Portion	-	66,780
Inventories:		
Food	13,186	15,868
Clothing and Other	142,530	128,481
Prepaid Expenses	298,269	448,139
Total Current Assets	1,307,341	1,884,047
OTHER ASSETS		
Investments	8,809,768	9,194,055
PROPERTY AND EQUIPMENT		
Land	984,709	984,709
Buildings and Improvements	19,949,954	19,591,659
Equipment	617,424	596,528
Vehicles	383,193	368,319
Construction in Process	239,326	28,061
Total Property and Equipment	22,174,606	21,569,276
Less: Accumulated Depreciation	(10,050,095)	(9,352,666)
Net Property and Equipment	12,124,511	12,216,610
 Total Assets	 \$ 22,241,620	 \$ 23,294,712

See accompanying Notes to Financial Statements.

**UNION GOSPEL MISSION ASSOCIATION OF ST. PAUL
BALANCE SHEETS (CONTINUED)
SEPTEMBER 30, 2018 AND 2017**

	2018	2017
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts and Contracts Payable	\$ 485,338	\$ 435,789
Accrued Compensation and Benefits	347,518	403,676
Deferred Revenue	65,559	108,033
Total Current Liabilities	898,415	947,498
 LONG-TERM LIABILITIES		
Asset Retirement Obligation	107,406	101,807
Total Liabilities	1,005,821	1,049,305
 NET ASSETS		
Unrestricted:		
Undesignated	598,245	1,425,616
Designated	17,087,820	17,203,972
Total Unrestricted	17,686,065	18,629,588
Temporarily Restricted	1,480,234	1,546,319
Permanently Restricted	2,069,500	2,069,500
Total Net Assets	21,235,799	22,245,407
Total Liabilities and Net Assets	\$ 22,241,620	\$ 23,294,712

See accompanying Notes to Financial Statements.

UNION GOSPEL MISSION ASSOCIATION OF ST. PAUL
STATEMENTS OF ACTIVITIES
YEARS ENDED SEPTEMBER 30, 2018 AND 2017

	2018			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
PUBLIC SUPPORT, REVENUE, AND GAINS				
Public Support:				
Contributions	\$ 13,729,198	\$ 191,218	\$ -	\$ 13,920,416
Revenue and Gains:				
Realized Gain (Loss)	139,795	-	-	139,795
Unrealized Gain (Loss)	245,150	211,891	-	457,041
Interest Income	125,876	85,026	-	210,902
Program Service Fees and Other	827,948	-	-	827,948
Total Revenue and Gains	<u>1,338,769</u>	<u>296,917</u>	<u>-</u>	<u>1,635,686</u>
Net Assets Released from Restriction	<u>554,220</u>	<u>(554,220)</u>	<u>-</u>	<u>-</u>
Total Public Support, Revenue, and Gains	15,622,187	(66,085)	-	15,556,102
EXPENSE				
Program Services	12,285,248	-	-	12,285,248
Support Services:				
Administrative	1,181,518	-	-	1,181,518
Fundraising	3,098,944	-	-	3,098,944
Total Support Services	<u>4,280,462</u>	<u>-</u>	<u>-</u>	<u>4,280,462</u>
Total Expense	<u>16,565,710</u>	<u>-</u>	<u>-</u>	<u>16,565,710</u>
CHANGE IN NET ASSETS	(943,523)	(66,085)	-	(1,009,608)
Net Assets - Beginning of Year	<u>18,629,588</u>	<u>1,546,319</u>	<u>2,069,500</u>	<u>22,245,407</u>
NET ASSETS - END OF YEAR	<u>\$ 17,686,065</u>	<u>\$ 1,480,234</u>	<u>\$ 2,069,500</u>	<u>\$ 21,235,799</u>

See accompanying Notes to Financial Statements.

**UNION GOSPEL MISSION ASSOCIATION OF ST. PAUL
STATEMENTS OF ACTIVITIES (CONTINUED)
YEARS ENDED SEPTEMBER 30, 2018 AND 2017**

2017			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 14,236,107	\$ 330,184	\$ 1,236,000	\$ 15,802,291
628,556	-	-	628,556
(310,694)	166,700	-	(143,994)
147,152	52,450	-	199,602
1,350,453	-	-	1,350,453
1,815,467	219,150	-	2,034,617
220,186	(220,186)	-	-
16,271,760	329,148	1,236,000	17,836,908
12,009,051	-	-	12,009,051
1,082,769	-	-	1,082,769
3,012,668	-	-	3,012,668
4,095,437	-	-	4,095,437
16,104,488	-	-	16,104,488
167,272	329,148	1,236,000	1,732,420
18,462,316	1,217,171	833,500	20,512,987
<u>\$ 18,629,588</u>	<u>\$ 1,546,319</u>	<u>\$ 2,069,500</u>	<u>\$ 22,245,407</u>

See accompanying Notes to Financial Statements.

**UNION GOSPEL MISSION ASSOCIATION OF ST. PAUL
STATEMENTS OF FUNCTIONAL EXPENSE
YEARS ENDED SEPTEMBER 2018 AND 2017**

	2018				2017			
	Program	Support Services		Total	Program	Support Services		Total
	Services	Administrative	Fundraising		Services	Administrative	Fundraising	
Salaries, Benefits, and								
Payroll Taxes	\$ 5,637,109	\$ 674,143	\$ 807,466	\$ 7,118,718	\$ 5,886,449	\$ 654,545	\$ 765,454	\$ 7,306,448
Professional Fees and Stipends	1,127,867	264,835	257,790	1,650,492	1,094,113	253,079	283,895	1,631,087
Supplies	262,392	18,963	12,961	294,316	244,250	24,773	19,057	288,080
Communications	64,591	2,944	2,960	70,495	62,117	2,756	1,976	66,849
Occupancy and Related Costs	876,515	29,462	8,171	914,148	906,127	21,921	9,556	937,604
Transportation	79,319	13,877	8,816	102,012	89,154	9,952	8,607	107,713
Postage and Printing	56,316	13,189	1,564,332	1,633,837	42,250	13,384	1,720,469	1,776,103
Food Service	942,179	-	-	942,179	922,748	-	-	922,748
Clothing	1,113,426	-	-	1,113,426	1,053,239	-	-	1,053,239
Specific Assistance	575,214	5,550	1,050	581,814	652,569	-	500	653,069
Interest Expense	-	14	-	14	722	49	-	771
Other	257,141	86,766	368,640	712,547	176,411	59,302	173,845	409,558
Loss on Disposal of Fixed Assets	102,317	-	-	102,317	37,496	-	-	37,496
Equipment Repairs and Rentals	408,185	41,999	61,050	511,234	234,835	22,554	24,386	281,775
Depreciation	782,677	29,776	5,708	818,161	606,571	20,454	4,923	631,948
Total	\$ 12,285,248	\$ 1,181,518	\$ 3,098,944	\$ 16,565,710	\$ 12,009,051	\$ 1,082,769	\$ 3,012,668	\$ 16,104,488
Percentage of Total Expense	75%	7%	18%	100%	75%	7%	18%	100%

See accompanying Notes to Financial Statements.

UNION GOSPEL MISSION ASSOCIATION OF ST. PAUL
STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (1,009,608)	\$ 1,732,420
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation	818,161	631,948
Realized Gain on Investments	(139,795)	(628,556)
Unrealized (Gain) Loss on Investments	(457,041)	143,994
Net Loss on Disposal of Fixed Assets	102,818	37,496
(Increase) Decrease in:		
Accounts Receivable	151,504	(135,734)
Pledges Receivable	66,780	61,959
Inventories	(11,367)	48,810
Prepaid Expenses	149,870	(189,372)
Increase (Decrease) in:		
Accounts and Contracts Payable	49,549	(887,421)
Accrued Compensation and Benefits	(56,158)	(6,970)
Deferred Revenue	(42,474)	13,357
Asset Retirement Obligation	5,599	5,307
Net Cash Provided (Used) by Operating Activities	(372,162)	827,238
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	(828,880)	(827,411)
Proceeds from Sale of Investments	1,268,897	2,533,105
Purchase of Investments	(287,774)	(2,220,683)
Net Cash Provided (Used) by Investing Activities	152,243	(514,989)
 INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(219,919)	312,249
 Cash and Cash Equivalents - Beginning of Year	1,044,155	731,906
 CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 824,236	\$ 1,044,155

See accompanying Notes to Financial Statements.

UNION GOSPEL MISSION ASSOCIATION OF ST. PAUL
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of the Organization

The Union Gospel Mission Association of St. Paul (the Mission) is a Christian ministry which has been dedicated to serving the homeless, poor, and addicted in our community for over 116 years. By meeting physical, spiritual, emotional, and educational needs, our Mission is changing lives!

Food Services – In 2018, nearly 324,615 healthy meals were provided to homeless and hungry people. Two UGM kitchens served three meals a day. On average, the Men's Campus cafeteria served 14,829 on-site meals monthly. Additionally, over 1,661 meals were served monthly at our Naomi Family Residence, and two meals a day and snacks were provided at our Child Development Center (974 on average per month).

During the week of Thanksgiving, over 56,000 complete take-home meals were given to families in need. Approximately 1,900 meals were delivered to local senior and low-income housing complexes for Thanksgiving and Christmas. Over 1,880 holiday meals were served on-site during Thanksgiving, Christmas, and Easter.

Men's Programs – Food, shelter, clothing, and personal care items are provided to men as they come to the Mission seeking help. Facilities include emergency shelter, transitional housing, and programs that encourage men to make progress toward leading more productive, self-sufficient lives.

- In 2018, Bethel Hotel provided beds in our emergency shelter for up to 194 men per day, and another 107 beds for men in our transitional housing programs. In addition, 24 beds are used by men participating in our Discipleship Program. Over the course of the year, 1,268 men were served in our shelter and transitional housing facilities.
- Approximately 22 men at a time are taught to rebuild their lives on principles of the Bible in the Mission's residential Discipleship Program. In 2018, 42 men attended classes designed to increase spiritual knowledge, improve academic abilities, and develop important life skills.
- In 2018, Support Services offered case management and therapeutic services to 422 men who reside on the Men's Campus. Staff and social work interns from the Support Services program connect clients with the resources needed to develop relational and spiritual support systems, develop appropriate life-skills, and find safe, affordable housing.
- The Christ Recovery Center is a four-phase residential recovery program designed to help men work through chemical dependency issues. This year, 81 men were offered the tools needed to break free from the grip of addiction.

UNION GOSPEL MISSION ASSOCIATION OF ST. PAUL
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Nature of the Organization (Continued)

Women's and Children's Facility – The Naomi Family Residence provides transitional shelter and programming for single women and homeless mothers and children. Focusing on spiritual growth, mental and emotional health, chemical dependency recovery, and the development of academic abilities and life skills, this program helps women move through crisis to self-sufficiency, providing them with a solid foundation for safe, independent living. In 2018, 108 homeless women and children found a safe home here.

Education and Career Development – This year, the LifeNet, SuccessNet, and WorkNet programs integrated into one comprehensive program under the LifeNet brand. With 27 computer work stations, LifeNet offers a self-paced, computer-based curriculum. Students brush up on basic academic skills and computer literacy while developing workplace skills such as punctuality, goal setting, and appropriate communication.

The program takes students through three phases. The Ready phase stabilizes students as they study Scripture, engage in academic studies, and begin a personal development plan. In the Set phase, students continue what they began in the Ready phase and grow necessary skills for success. In the Go phase, students work on essential career skills and job-search strategies.

LifeNet also provides a variety of workshops throughout the year to enhance personal and professional development.

The goal of the Mission's Adult Education and Training Department – LifeNet and Career Services – is to help students prepare for Christ-centered independent living. Specifically, we want to help students grow academically, socially, and spiritually so that they are fully equipped for long-term sustainable, gratifying employment.

In 2018, 121 men and women participated in LifeNet. 42% of those students met all requirements and graduated from the program.

54 students entered Career Services in 2018, and were provided one-on-one coaching and support to achieve ongoing educational and employment goals. 57% of those students were successful in finding work, 17% enrolled in vocational training, and another 7% enrolled in post-secondary education.

Some of our program graduates are interested in pursuing vocational training to gain practical skills. This training offers just the right combination of class instruction and hands-on guidance to qualify for gainful employment in a specific trade. Twenty-three students chose vocational training this year.

The Mission's Chemical Dependency Technician Program provides Christ Recovery Center graduates with valuable skills and certifications to build a successful career as a chemical dependency technician. Many of the alumni who completed the program have gone on to permanent employment in this important field. In 2018, 8 men completed internships in the CD Tech program.

UNION GOSPEL MISSION ASSOCIATION OF ST. PAUL
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Nature of the Organization (Continued)

Youth and Family Programs – Our licensed Child Development Center provides services to children between the ages of 6 weeks and 12 years old. In 2018, 45 children were enrolled. Originally developed to care for children living at our Naomi Family Residence with their moms, today our Child Development Center also serves families of individuals employed in the downtown area. The Child Development Center continued to hold the NAEYC Accreditation in 2018.

- The Bethel Buddies mentoring program was offered at Bethel University on Thursday evenings during the school year. The program provided tutoring opportunities and enrichment for 31 students, ages 6-17 years old.
- The children of Naomi Family Residence receive case management services that provide pastoral care and a variety of activities designed to address the needs of the whole child. Weekly individual visits with a youth and family chaplain provide children with a safe place to experience hope and healing. Twenty-three children were served during 2018.
- In 2018, the Minneapolis Youth and Family Program provided meals to thousands of individuals through numerous food distributions.
- The Mission's Ober Community Center reaches out to the St. Anthony, Rondo, and Frogtown neighborhoods of St. Paul. In 2018, the center served 96 students through discipleship groups, on-site tutoring programs, sports teams, and other activities. This facility is also regularly used by other community programs.
- The Asian Ministries Program serves youth and their families. The YES, LIGHTHOUSE programs provide tutoring, mentoring, Bible Studies, and youth groups for elementary, junior, and senior high school students. In 2018, 174 youth and children benefited from these programs.
- In 2018, The Mission's onsite mental health and medical clinic opened its doors to provide free, comprehensive mental health care and referrals for men, women, and children residing at the Mission. This year, 52 students participated in individual and group therapy.

Public Education – Public education at the Mission consists of two components: volunteering and community awareness. The Mission helps connect people in need with people who care through our volunteer program. In 2018, 4,250 volunteers reached out to the homeless by volunteering approximately 171,120 hours at the Mission.

UNION GOSPEL MISSION ASSOCIATION OF ST. PAUL
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Nature of the Organization (Continued)

In 2018, we continued to raise awareness through events, print materials, radio spots, videos, email campaigns, and social networking opportunities (Facebook, Twitter, Instagram, and YouTube) designed to inform and inspire. Many of these artifacts featured interviews with our students, who shared how the Mission has changed their lives and provided them with help and hope.

Basis of Presentation

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

Unrestricted – Resources over which the board of directors has discretionary control. Unrestricted – Designated consist of Designated Property and Equipment unrestricted net assets and Designated Reserve unrestricted net assets. Designated Property and Equipment amounts represent those net assets that are associated with property and equipment balances. The Designated Reserve consists of Board Restricted Operating Reserve and well as the Board Restricted Capital Fund. The Board Restricted Operating Reserve's baseline amount is 25% of the annual budget; however, this amount may be changed by the board of directors based upon their judgment of the financial risks facing the Mission. The Board Restricted Capital Fund was created for the purpose of supporting Capital Projects to support the needs of the Mission, and in support of the other Board Designated Reserves. It is funded by money raised in capital campaigns, operating surpluses in excess of the amount needed for the Board Restricted Operating Reserve and by designated gifts.

Temporarily Restricted – Those resources subject to donor-imposed restrictions which will be satisfied by actions of the Mission or passage of time. The Mission has elected to present temporarily restricted contributions, which are fulfilled in the same time period, within the unrestricted net asset class.

Permanently Restricted – Those resources subject to donor-imposed restriction that they be maintained permanently by the Mission to use all or part of the income earned, including capital appreciation, or related investments for unrestricted or temporarily restricted purposes.

Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

UNION GOSPEL MISSION ASSOCIATION OF ST. PAUL
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

The Mission considers all highly liquid securities purchased with an original maturity of 90 days or less to be cash equivalents.

Accounts Receivable

The Mission provides an allowance for bad debts using the allowance method. Program Services are charged on an unsecured basis. Finance charges also accrue if payment is not made in a timely manner and continue to accrue until the balance is paid in full. When all collection efforts have been exhausted, accounts are written off against the related allowance. In addition, an allowance is provided for other accounts when a significant pattern of uncollectibility has occurred. At September 30, 2018 and 2017, the allowance was \$2,000.

Pledges Receivable

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Contributions that are expected to be collected within one year are recorded at their net realizable value. Contributions that are expected to be collected in future years are recorded at the present value of the amount expected to be collected. The discounts on those amounts are computed using an imputed interest rate applicable to the year in which the pledge is received. The discount on the pledges was \$-0- in 2018 and 2017. An allowance estimated by management, for uncollectible pledges receivable was \$-0- as of September 30, 2018 and 2017.

Conditional pledges are not included as support until such time as the conditions are substantially met. In 2018, the Mission was not notified of any conditional pledges for which the conditions had not been met as of September 30, 2018.

Inventories

Inventories of purchased and donated food are stated at an average cost or donated value per pound. Clothing items are valued at an average estimated fair market value based on a comparative market study of clothing values from retail and resale outlets in 2010. These estimates have been adjusted annually for changes in the local consumer price index.

Investments

The Mission carries its mutual funds, bonds, and stocks at fair value and realized and unrealized gains and losses are reflected in the statements of activities. Donated investments are reflected as contributions at their market values at date of receipt. In general, investments are exposed to various risks, such as interest rate, credit, and overall market volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of the investments will occur in the near term and that such changes could materially affect the amounts reported in the balance sheets.

UNION GOSPEL MISSION ASSOCIATION OF ST. PAUL
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment

Property and equipment is stated at cost. The construction in process is largely comprised of a roofing repair project underway at year-end. Contributed property and equipment is recorded at fair value at the date of donation. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted. Depreciation is based on the estimated useful lives of the assets. Costs of current repairs and minor replacements are charged to expense as incurred. All acquisitions of land, buildings, and equipment in excess of \$5,000 are capitalized.

Deferred Revenue

Program service fees which are paid in advance of when services are provided are recorded as deferred revenue.

Asset Retirement Obligation

Accounting guidance defines a conditional asset retirement obligation as a legal obligation to perform an asset retirement activity in which the timing and/or settlement are conditional on a future event that may or may not be within the control of the entity. The Mission estimated the cost of any potential obligation to remove asbestos. The Mission used a future value rate assumption of 3% and a present value risk-free rate of 5% to determine the potential liability. The Mission has recorded a liability of \$107,406 and \$101,807 at September 30, 2018 and 2017, respectively.

Donated Materials and Services

Donated food and clothing and donated services are valued at their fair market value and are presented as revenue and expense, when incurred.

Functional Allocation of Expense

The costs of programs and support services have been presented on a functional basis. Salaries and related expenses are allocated to program and supporting services based on actual time spent on each program. The remaining expenses are specifically allocated whenever practical and, when this is impractical, are allocated based on the best estimates of management and the board of directors.

Tax Exempt Status

The Mission is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Minnesota Statute. It has been classified as an organization that is not a private foundation under the Internal Revenue Code and charitable contributions by donors are tax deductible. The Mission has no current obligation for unrelated business income tax.

UNION GOSPEL MISSION ASSOCIATION OF ST. PAUL
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements

The Mission follows an accounting standard that defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value, and requires expanded disclosures about fair value measurements. In accordance with this standard, the Mission has categorized its investments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Financial assets and liabilities recorded on the balance sheets are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Financial assets and liabilities are valued using inputs that are unadjusted quoted prices in active markets accessible at the measurement date of identical financial assets and liabilities. The inputs include those traded on an active exchange, such as the New York Stock Exchange, or that are traded by dealers or brokers in active over-the-counter markets. The Mission has investments of equities and bonds included in Level 1.

Level 2 – Financial assets and liabilities are valued using inputs quoted prices for similar assets, or inputs that are observable, either directly or indirectly for substantially the full term through corroboration with observable market data.

Level 3 – Financial assets and liabilities are valued using pricing inputs which are unobservable for the asset, inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset.

Concentrations

The Mission maintains its cash reserves and cash balances in three financial institutions. At times throughout the year, the amounts on deposit may exceed the Federal Deposit Insurance Corporation limit of \$250,000.

For the year ended September 30, 2017, 54% of the Mission's pledges receivable was from two donors. For the year ended September 30, 2018, there were no pledge receivable concentrations.

**UNION GOSPEL MISSION ASSOCIATION OF ST. PAUL
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Uniform Prudent Management of Institutional Funds Act

During 2008, the Uniform Prudent Management of Institutional Funds Act (UPMIFA) became effective in the state of Minnesota. In August 2008, the FASB released the Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds in 2009 standard which provides guidance on the classification of endowment fund net assets for states that have enacted versions of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), and enhances disclosures for endowment funds. Under UPMIFA all unappropriated endowment fund assets are considered restricted.

Subsequent Events

In preparing these financial statements, the Mission has evaluated events and transactions for potential recognition or disclosure through February 11, 2019, the date the financial statements were available to be issued.

NOTE 2 PLEDGES RECEIVABLE

Unconditional promises to give at September 30 are expected to be realized in the following manner:

	2018	2017
Amounts Due In:		
Less Than One Year	\$ -	\$ 66,780
Gross Unconditional Promises to Give	\$ -	\$ 66,780

NOTE 3 INVESTMENTS

The carrying value of investments consists of the following at September 30:

	2018	2017
Cash and Cash Equivalents	\$ 377,120	\$ 1,170,557
Mutual Funds - Bonds	771,644	731,417
Mutual Funds - Stocks	1,458,542	1,382,504
Bonds	1,930,992	1,939,817
Stock	4,271,470	3,969,760
Total	\$ 8,809,768	\$ 9,194,055

UNION GOSPEL MISSION ASSOCIATION OF ST. PAUL
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

NOTE 4 DONATED GOODS AND SERVICES

The value of donated materials and services included in the financial statements and the corresponding expenses for the years ended September 30 is as follows:

<u>Description</u>	<u>2018</u>	<u>2017</u>
Donated Food [In 2018, 183,013 lbs. (101,876 from Second Harvest); in 2017, 158,313 lbs. (127,212 lbs. from Second Harvest) valued at \$1.11/lb. in 2018 and \$1.10/lb. in 2017. Food from Second Harvest valued at \$1.73/lb. in 2018 and \$1.67/lb. in 2017.]	\$ 266,308	\$ 248,281
Donated Clothing (Approximately 93,996 lbs. and 84,199 lbs. at \$11.58/lb. in 2018 and \$11.51/lb. in 2017, respectively).	1,088,479	969,132
Miscellaneous Donated Items	73,411	44,273
Donated Services: Dental and Medical Professionals, Counselors, Attorneys, Pastors, Business Professionals, and Educators	<u>288,688</u>	<u>402,671</u>
Donated Goods and Services	<u>\$ 1,716,886</u>	<u>\$ 1,664,357</u>

All goods and services were considered program activities. The professional services were donated by dentists, doctors, lawyers, counselors, and ministers.

NOTE 5 NET ASSETS

Unrestricted – Designated

By board action, the board of directors has designated the following unrestricted net assets:

	<u>2018</u>	<u>2017</u>
Net Property and Equipment	\$ 12,124,511	\$ 12,216,611
Asset Retirement Obligation	<u>(107,406)</u>	<u>(101,807)</u>
Total Designated Property and Equipment	12,017,105	12,114,804
Reserve	<u>5,070,715</u>	<u>5,089,168</u>
Total Designated	<u>\$ 17,087,820</u>	<u>\$ 17,203,972</u>

UNION GOSPEL MISSION ASSOCIATION OF ST. PAUL
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

NOTE 5 NET ASSETS (CONTINUED)

Temporarily Restricted

Net assets temporarily restricted as of September 30 consists of the following donor restrictions:

	2018	2017
Other	\$ 6	\$ 340
Mental Health Testing	10,888	-
Youth and Family Educational Supplies	1,388	-
Furniture	60,041	-
NFR Heating and Door Project	-	75,000
Roofing Project	-	182,085
Restricted for Future Use	1,407,911	1,288,894
Total	\$ 1,480,234	\$ 1,546,319

Permanently Restricted

Net assets permanently restricted as of September 30, 2018 and 2017 consists of donor gifts, the income of which can be used to support the Society 2002 endowment.

NOTE 6 NET ASSETS RELEASED FROM RESTRICTION

Net assets were released from donor restriction by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors:

	2018	2017
Restricted for Future Use	\$ 177,900	\$ 112,749
Educational / Employment Programs	-	3,050
Dental Clinic Expansion	-	1,230
Men's Birthday	-	225
Mental Health Testing	4,112	-
Bethel Laundry Project	-	43,199
Roofing Project	182,085	15,340
Youth and Family Educational Supplies	627	34,969
NFR Heating and Door Project	105,000	-
Furniture	84,153	-
Other	343	9,424
Total Net Assets Released	\$ 554,220	\$ 220,186

UNION GOSPEL MISSION ASSOCIATION OF ST. PAUL
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

NOTE 7 FAIR VALUE MEASUREMENTS

The Mission uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. For additional information on how the organization values all other assets and liabilities, refer to Note 1 – Summary of Significant Accounting Policies.

The following tables present the fair value hierarchy for the balance of the assets of the organization measured at fair value on a recurring basis as of September 30:

	2018			Total
	Level 1	Level 2	Level 3	
Investments:				
Mutual Funds - Bonds	\$ 771,644	\$ -	\$ -	\$ 771,644
Mutual Funds - Stocks	1,458,542	-	-	1,458,542
Bonds	-	1,930,992	-	1,930,992
Stocks	4,271,470	-	-	4,271,470
Total	<u>\$ 6,501,656</u>	<u>\$ 1,930,992</u>	<u>\$ -</u>	<u>\$ 8,432,648</u>

	2017			Total
	Level 1	Level 2	Level 3	
Investments:				
Mutual Funds - Bonds	\$ 731,417	\$ -	\$ -	\$ 731,417
Mutual Funds - Stocks	1,382,504	-	-	1,382,504
Bonds	-	1,939,817	-	1,939,817
Stock	3,969,760	-	-	3,969,760
Total	<u>\$ 6,083,681</u>	<u>\$ 1,939,817</u>	<u>\$ -</u>	<u>\$ 8,023,498</u>

NOTE 8 ENDOWMENT

The Mission's endowment consists of funds established for a variety of purposes. Its endowment includes donor-restricted endowment funds. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the board of directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

UNION GOSPEL MISSION ASSOCIATION OF ST. PAUL
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

NOTE 8 ENDOWMENT (CONTINUED)

Investment Objectives and Strategies

The Mission has adopted an investment policy to provide guidelines for investing endowment and quasi-endowment assets. Under this policy, as approved by the Investment Committee and the board of directors, the endowment assets are invested in a manner that is intended to maintain the principle of the fund and maximize growth and income over time. It has been determined the best way to achieve this objective is to grow the real assets of the fund over time. The horizon for the fund is perpetual, implying management of the fund with a long-term perspective. Income can be used for general operating. Ultimately, the purpose of the endowment is to support financially the programs of the Mission. Thus, the purpose in maintaining or growing the real value of the fund is to allow for an increased level of support over time. The objective is to maximize return within reasonable and prudent levels of risk, and maintain an appropriate asset allocation based on a total return policy that is compatible with a flexible spending policy. To achieve these objectives, the organization follows an asset diversification plan, sets performance benchmarks for investments managers, and has established various asset quality and limitations thresholds. The organization expects its endowment funds, over time, to provide investment returns required to maintain purchasing power – consumer price index plus 5%. Actual returns in any given year may vary from this amount.

Interpretation of Relevant Law

The board of directors of the Mission has interpreted the Minnesota Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund absent explicit donor stipulations to the contrary. As a result of this interpretation, the Mission classifies as permanently restricted net assets the original value of the gifts to the permanent endowment and the value of subsequent gifts to the permanent endowment. The remaining portion of donor-restricted endowment funds, if any that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Mission. In accordance with UPMIFA, the Mission considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Mission and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Mission
- (7) The investment policies of the Mission.

UNION GOSPEL MISSION ASSOCIATION OF ST. PAUL
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

NOTE 8 ENDOWMENT (CONTINUED)

Interpretation of Relevant Law (Continued)

The following is a summary of endowment funds subject to Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) for the years ended September 30:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2018 Total</u>
Endowment Net Assets - October 1, 2017	\$ -	\$ 1,221,994	\$ 2,069,500	\$ 3,291,494
Investment Return:				
Net Realized and Unrealized Gains	-	211,891	-	211,891
Investment Income	-	85,026	-	85,026
Total Investment Return	-	296,917	-	296,917
Contributions	-	-	-	-
Appropriations of Endowment Assets for Expenditure	-	(111,000)	-	(111,000)
Endowment Net Assets - September 30, 2018	<u>\$ -</u>	<u>\$ 1,407,911</u>	<u>\$ 2,069,500</u>	<u>\$ 3,477,411</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2017 Total</u>
Endowment Net Assets - October 1, 2016	\$ -	\$ 1,002,844	\$ 833,500	\$ 1,836,344
Investment Return:				
Net Realized and Unrealized Gains	-	166,700	-	166,700
Investment Income	-	52,450	-	52,450
Total Investment Return	-	219,150	-	219,150
Contributions	-	-	1,236,000	1,236,000
Appropriations of Endowment Assets for Expenditure	-	-	-	-
Endowment Net Assets - September 30, 2017	<u>\$ -</u>	<u>\$ 1,221,994</u>	<u>\$ 2,069,500</u>	<u>\$ 3,291,494</u>

No board-designated endowments existed at September 30, 2018 and 2017.

UNION GOSPEL MISSION ASSOCIATION OF ST. PAUL
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

NOTE 8 ENDOWMENT (CONTINUED)

Spending Policy

The Mission has a policy that the board of directors shall determine at the end of each fiscal year what portion of the Endowment Fund shall be appropriated for expenditure for the following fiscal year, in accordance with the provisions and standards set forth in Minnesota Statutes Section 309.745; provided, however, that not more than 5% of the value of the Endowment Fund at the end of the year shall be appropriated for expenditure for the following fiscal year. In 2018, the board-approved annual withdraws on the Endowment Fund. The withdraw calculation is based on 5% of the Endowment Fund's three year average. The Endowment Fund corpus is not to be affected. The annual withdraw in 2018 and 2017 totaled \$111,000 and \$-0- respectively. Both the principal and income from unrestricted gifts and bequests are to be used for the purposes, projects, and programs recommended by the board of directors. In any event, the restrictions on any gift or bequest to the Endowment Fund shall be honored to the greatest extent possible.

NOTE 9 EMPLOYEE BENEFITS

The Mission had a 457b deferred compensation plan that provides certain key management with a way to save additional funds for retirement. Under the plan, deferred compensation contributions and investment earnings less fees and expenses are held in individual accounts for each participant until paid according to the provisions of the plan. The Mission did not contribute to the plan for the years ended September 30, 2018 and 2017. The related liability at September 30, 2018 and 2017 was \$-0- and \$45,074, respectively, and is included in Accrued Compensation and Benefits on the balance sheets. The related investment balances at September 30, 2018 and 2017 were \$-0- and \$45,074, respectively, and are included in Investments on the balance sheets.

The Mission has a 401(k) employee savings plan covering substantially all employees. Eligible employees may contribute up to the maximum dollar limit permitted by law. The Association matches contributions to the plan up to 50% of the first 5% of employee contributions. The Mission match was \$98,040 and \$98,582 for the years ended September 30, 2018 and 2017, respectively. The Mission may also make an annual discretionary contribution to the plan. The Mission did not make a discretionary contribution in 2018 and 2017.

UNION GOSPEL MISSION ASSOCIATION OF ST. PAUL
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

NOTE 10 LEASES

The Organization has an operating lease agreement for office space. This lease was renewed in 2018 and has a term of three years. In most instances, office space lease terms are renewable.

As of September 30, 2018, future minimum rental payments are as follows:

<u>Year Ending September 30,</u>	<u>Amount</u>
2019	\$ 61,547
2020	63,984
2021	16,148
Total	<u>\$ 141,679</u>

Rent expense for the years ended September 30, 2018 and 2017 totaled \$59,414 and \$58,500, respectively.

**UNION GOSPEL MISSION ASSOCIATION OF ST. PAUL
SCHEDULE OF FUNCTIONAL EXPENSE
YEAR ENDED SEPTEMBER 30, 2018**

	Program Services							Support Services			2018 Total	
	Food Services	Men's Programs	Women and Children's Facility	Education And Career Development	Youth and Family Programs	Clinics	Public Education	Total Program Services	Administrative	Fundraising		Total Support Services
Salaries, Benefits, and Payroll Taxes	\$ 407,597	\$ 2,527,070	\$ 700,585	\$ 667,706	\$ 1,060,800	\$ -	\$ 273,351	\$ 5,637,109	\$ 674,143	\$ 807,466	\$ 1,481,609	\$ 7,118,718
Professional Fees and Stipends	38,793	576,662	143,311	143,647	160,407	6,996	58,051	1,127,867	264,835	257,790	522,625	1,650,492
Supplies	2,368	113,119	20,719	43,578	44,513	-	38,095	262,392	18,963	12,961	31,924	294,316
Communications	1,353	26,914	3,829	4,891	26,249	-	1,355	64,591	2,944	2,960	5,904	70,495
Occupancy and Related Costs	59,529	371,759	158,687	31,279	248,487	-	6,774	876,515	29,462	8,171	37,633	914,148
Transportation	469	44,943	18,494	5,781	4,448	-	5,184	79,319	13,877	8,816	22,693	102,012
Postage and Printing	1,080	10,385	4,190	3,463	8,754	216	28,228	56,316	13,189	1,564,332	1,577,521	1,633,837
Food Service	886,597	14,865	2,733	3,243	34,655	-	86	942,179	-	-	-	942,179
Clothing	-	1,113,426	-	-	-	-	-	1,113,426	-	-	-	1,113,426
Specific Assistance	-	-	12,726	3,167	12,545	546,526	250	575,214	5,550	1,050	6,600	581,814
Interest Expense	-	-	-	-	-	-	-	-	14	-	14	14
Other	11,235	146,510	17,727	14,301	37,353	-	30,015	257,141	86,766	368,640	455,406	712,547
Loss on Disposal of Fixed Assets	-	102,317	-	-	-	-	-	102,317	-	-	-	102,317
Equipment Repairs and Rentals	41,694	205,402	66,472	35,381	51,507	-	7,729	408,185	41,999	61,050	103,049	511,234
Depreciation	59,204	348,569	91,681	33,871	244,379	-	4,973	782,677	29,776	5,708	35,484	818,161
Total	\$ 1,509,919	\$ 5,601,941	\$ 1,241,154	\$ 990,308	\$ 1,934,097	\$ 553,738	\$ 454,091	\$ 12,285,248	\$ 1,181,518	\$ 3,098,944	\$ 4,280,462	\$ 16,565,710

**UNION GOSPEL MISSION ASSOCIATION OF ST. PAUL
SCHEDULE OF FUNCTIONAL EXPENSE
YEAR ENDED SEPTEMBER 30, 2017**

	Program Services							Support Services			2017 Total	
	Food Services	Men's Programs	Women and Children's Facility	Education And Career Development	Youth and Family Programs	Clinics	Public Education	Total Program Services	Administrative	Fundraising		Total Support Services
Salaries, Benefits, and Payroll Taxes	\$ 386,848	\$ 2,497,462	\$ 607,791	\$ 668,702	\$ 1,070,111	\$ 388,450	\$ 267,085	\$ 5,886,449	\$ 654,545	\$ 765,454	\$ 1,419,999	\$ 7,306,448
Professional Fees and Stipends	44,654	371,657	115,121	152,136	100,512	253,342	56,691	1,094,113	253,079	283,895	536,974	1,631,087
Supplies	2,542	81,530	11,249	28,925	52,470	31,628	35,906	244,250	24,773	19,057	43,830	288,080
Communications	1,099	20,930	3,059	9,506	25,674	818	1,031	62,117	2,756	1,976	4,732	66,849
Occupancy and Related Costs	56,506	327,233	186,098	37,812	276,690	14,247	7,541	906,127	21,921	9,556	31,477	937,604
Transportation	2,480	40,035	17,636	5,826	18,367	342	4,468	89,154	9,952	8,607	18,559	107,713
Postage and Printing	1,521	8,086	4,658	4,573	8,466	4,632	10,314	42,250	13,384	1,720,469	1,733,853	1,776,103
Food Service	845,384	16,289	2,405	4,602	46,890	6,188	990	922,748	-	-	-	922,748
Clothing	-	1,053,239	-	-	-	-	-	1,053,239	-	-	-	1,053,239
Specific Assistance	-	-	18,743	6,649	33,507	584,940	8,730	652,569	-	500	500	653,069
Interest Expense	-	-	-	-	722	-	-	722	49	-	49	771
Other	7,100	40,824	19,938	15,292	33,956	14,588	44,713	176,411	59,302	173,845	233,147	409,558
Loss on Disposal of Fixed Assets	-	-	-	-	-	37,496	-	37,496	-	-	-	37,496
Equipment Purchases and Repairs	50,265	46,490	25,257	19,864	60,001	19,237	13,721	234,835	22,554	24,386	46,940	281,775
Depreciation	34,500	232,220	71,343	28,134	208,929	27,416	4,029	606,571	20,454	4,923	25,377	631,948
Total	\$ 1,432,899	\$ 4,735,995	\$ 1,083,298	\$ 982,021	\$ 1,936,295	\$ 1,383,324	\$ 455,219	\$ 12,009,051	\$ 1,082,769	\$ 3,012,668	\$ 4,095,437	\$ 16,104,488