

UNION GOSPEL MISSION ASSOCIATION OF ST. PAUL
FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2019 AND 2018

**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 statements of financial position as of September 30, 2019 and 2018, and the related statements of activities, functional expenses, 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.

Board of Directors
Union Gospel Mission Association of St. Paul

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, 2019 and 2018, 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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
March 3, 2020

UNION GOSPEL MISSION ASSOCIATION OF ST. PAUL
STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2019 AND 2018

ASSETS	2019	2018
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 1,268,576	\$ 824,236
Accounts Receivable, Net Allowance of \$2,000 Each Year	21,100	29,120
Inventories:		
Food	6,112	13,186
Clothing and Other	219,073	142,530
Prepaid Expenses	335,259	298,269
Total Current Assets	1,850,120	1,307,341
OTHER ASSETS		
Investments	9,777,122	8,809,768
PROPERTY AND EQUIPMENT		
Land	984,709	984,709
Buildings and Improvements	20,216,150	19,949,954
Equipment	562,179	617,424
Vehicles	357,875	383,193
Construction in Progress	309,512	239,326
Total Property and Equipment	22,430,425	22,174,606
Less: Accumulated Depreciation	(10,768,766)	(10,050,095)
Net Property and Equipment	11,661,659	12,124,511
Total Assets	\$ 23,288,901	\$ 22,241,620
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 433,298	\$ 485,338
Accrued Compensation and Benefits	336,435	347,518
Deferred Revenue	32,383	65,559
Total Current Liabilities	802,116	898,415
LONG-TERM LIABILITIES		
Asset Retirement Obligation	113,313	107,406
Total Liabilities	915,429	1,005,821
NET ASSETS		
Without Donor Restrictions	18,688,213	17,686,065
With Donor Restrictions	3,685,259	3,549,734
Total Net Assets	22,373,472	21,235,799
Total Liabilities and Net Assets	\$ 23,288,901	\$ 22,241,620

See accompanying Notes to Financial Statements.

UNION GOSPEL MISSION ASSOCIATION OF ST. PAUL
STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE, SUPPORT, AND GAINS			
Public Support:			
Contributions	\$ 14,945,116	\$ 109,941	\$ 15,055,057
Revenue and Gains:			
Net Investment Income	278,512	241,631	520,143
Program Service Fees and Other	745,046	-	745,046
Total Revenue and Gains	1,023,558	241,631	1,265,189
Net Assets Released from Restriction	216,047	(216,047)	-
Total Revenue, Support, and Gains	16,184,721	135,525	16,320,246
EXPENSES AND LOSSES			
Program Services Expense	11,667,028	-	11,667,028
Supporting Services Expense:			
Management and General	787,993	-	787,993
Fundraising and Development	2,727,552	-	2,727,552
Total Supporting Services Expenses	3,515,545	-	3,515,545
Total Expenses and Losses	15,182,573	-	15,182,573
CHANGE IN NET ASSETS	1,002,148	135,525	1,137,673
Net Assets - Beginning of Year	17,686,065	3,549,734	21,235,799
NET ASSETS - END OF YEAR	\$ 18,688,213	\$ 3,685,259	\$ 22,373,472

See accompanying Notes to Financial Statements.

UNION GOSPEL MISSION ASSOCIATION OF ST. PAUL
STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE, SUPPORT, AND GAINS			
Public Support:			
Contributions	\$ 13,729,198	\$ 191,218	\$ 13,920,416
Revenue and Gains:			
Net Investment Income	510,821	296,917	807,738
Program Service Fees and Other	827,948	-	827,948
Total Revenue and Gains	1,338,769	296,917	1,635,686
Net Assets Released from Restriction	554,220	(554,220)	-
Total Revenue, Support, and Gains	15,622,187	(66,085)	15,556,102
EXPENSES AND LOSSES			
Program Services Expense:	12,285,248	-	12,285,248
Supporting Services Expense:			
Management and General	1,181,518	-	1,181,518
Fundraising and Development	3,098,944	-	3,098,944
Total Supporting Services Expenses	4,280,462	-	4,280,462
Total Expenses and Losses	16,565,710	-	16,565,710
CHANGE IN NET ASSETS	(943,523)	(66,085)	(1,009,608)
Net Assets - Beginning of Year	18,629,588	3,615,819	22,245,407
NET ASSETS - END OF YEAR	\$ 17,686,065	\$ 3,549,734	\$ 21,235,799

See accompanying Notes to Financial Statements.

**UNION GOSPEL MISSION ASSOCIATION OF ST. PAUL
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED SEPTEMBER 30, 2019**

	Program Services						Support Services			2019 Total	
	Food Services	Men's Programs	Women and Children's Facility	Education and Career Development	Youth and Family Programs	Public Education	Total Program Services	Administrative	Fundraising		Total Support Services
Salaries, Benefits, and Payroll Taxes	\$ 347,144	\$ 2,796,981	\$ 588,740	\$ 620,228	\$ 1,022,798	\$ 259,945	\$ 5,635,836	\$ 545,534	\$ 740,989	\$ 1,286,523	\$ 6,922,359
Professional Fees and Stipends	29,852	567,222	133,973	210,451	118,908	65,151	1,125,557	149,369	198,774	348,143	1,473,700
Supplies	2,860	77,836	12,010	30,687	28,231	33,689	185,313	4,875	7,798	12,673	197,986
Communications	1,540	18,116	3,885	5,010	20,150	1,581	50,282	1,682	2,288	3,970	54,252
Occupancy and Related Costs	55,697	362,378	138,264	25,727	260,234	8,216	850,516	9,967	8,228	18,195	868,711
Transportation	2,132	61,257	23,279	5,518	4,064	7,302	103,552	17,843	11,772	29,615	133,167
Postage and Printing	1,601	11,017	3,769	3,979	4,788	10,503	35,657	6,433	1,506,295	1,512,728	1,548,385
Food Service	905,112	15,169	1,395	2,503	17,984	-	942,163	-	-	-	942,163
Clothing	-	1,147,385	-	-	-	-	1,147,385	-	-	-	1,147,385
Specific Assistance	-	147,564	22,185	3,368	439	1,400	174,956	280	-	280	175,236
Interest Expense	-	-	-	-	-	-	-	2,685	-	2,685	2,685
Other	7,518	55,039	16,962	15,689	30,406	40,118	165,732	16,453	207,954	224,407	390,139
Loss on Disposal of Fixed Assets	-	4,948	-	-	-	-	4,948	-	-	-	4,948
Equipment Repairs and Rentals	23,991	243,788	41,607	71,637	40,051	9,025	430,099	17,165	37,187	54,352	484,451
Depreciation	64,905	374,810	96,404	35,152	237,756	6,005	815,032	15,707	6,267	21,974	837,006
Total	\$ 1,442,352	\$ 5,883,510	\$ 1,082,473	\$ 1,029,949	\$ 1,785,809	\$ 442,935	\$ 11,667,028	\$ 787,993	\$ 2,727,552	\$ 3,515,545	\$ 15,182,573

See accompanying Notes to Financial Statements.

UNION GOSPEL MISSION ASSOCIATION OF ST. PAUL
STATEMENT OF FUNCTIONAL EXPENSES
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 Purchases and Repairs	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

See accompanying Notes to Financial Statements.

UNION GOSPEL MISSION ASSOCIATION OF ST. PAUL
STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 1,137,673	\$ (1,009,608)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation and Amortization	837,004	818,161
Realized and Unrealized (Gain) Loss on Investments	(306,067)	(596,836)
Net Loss on Disposal of Fixed Assets	4,946	102,818
(Increase) Decrease in:		
Accounts Receivable	8,020	151,504
Pledges Receivable		66,780
Inventories	(69,469)	(11,367)
Prepaid Expenses	(36,990)	149,870
(Increase) Decrease in:		
Accounts and Contracts Payable	(52,040)	49,549
Accrued Compensation and Benefits	(11,083)	(56,158)
Deferred Revenue	(33,176)	(42,474)
Asset Retirement Obligation	5,907	5,599
Net Cash Provided (Used) by Operating Activities	1,484,725	(372,162)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Property and Equipment	(379,098)	(828,880)
Proceeds from Sales of Operating Investments	855,877	1,268,897
Purchases of Operating Investments	(1,517,164)	(287,774)
Net Cash Provided (Used) by Investing Activities	(1,040,385)	152,243
NET CHANGE IN CASH AND CASH EQUIVALENTS	444,340	(219,919)
Cash and Cash Equivalents - Beginning of Year	824,236	1,044,155
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 1,268,576	\$ 824,236

See accompanying Notes to Financial Statements.

**UNION GOSPEL MISSION ASSOCIATION OF ST. PAUL
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018**

NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES

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 2019, nearly 286,423 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 13,876 on-site meals monthly. Additionally, over 1,369 meals were served monthly at our Naomi Family Residence, and two meals a day and snacks were provided at our Child Development Center (972 on average per month).

During the week of Thanksgiving, over 58,647 complete take-home meals were given to families in need. Approximately 1,095 meals were delivered to local senior and low-income housing complexes for Thanksgiving and Christmas. Over 1,600 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 2019, Bethel Hotel provided beds in our emergency shelter for up to 194 men per day, and another 101 beds for men in our transitional housing programs. In addition, 61 beds are used by men participating in our Discipleship Program. Over the course of the year, 1,338 men were served in our shelter and transitional housing facilities.
- Approximately 36 men at a time are taught to rebuild their lives on principles of the Bible in the Mission's residential Discipleship Program. In 2019, 67 men attended classes designed to increase spiritual knowledge, improve academic abilities, and develop important life skills.
- In 2019, Support Services offered case management and therapeutic services to 301 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, 97 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, 2019 AND 2018

NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Organization (Continued)

Men's Programs (Continued)

- The Mission's onsite mental health and medical clinic provides free, comprehensive mental health care and referrals for men, women, and children residing at the Mission. This year, 237 students participated in individual and group therapy and an additional 562 students received medical care.

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 2019, 98 homeless women and children found a safe home here.

Education and Career Development

With 27 computer work stations, Education and Career Development 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.

Education and Career Development 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 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 2019, 112 men and women participated in Education and Career Development. Thirty-seven percent of those students met all requirements and graduated from the program.

Thirty-eight students entered Career Services in 2019. This number does not include services provided to students from previous years. All were provided one-on-one coaching to assist them in achieving their long-term educational and employment goals. Sixty-three percent of the students are now gainfully employed. Twenty-four percent of the students entered various vocational training programs. Only three, or 13 percent, of the students are still in an active job search mode.

**UNION GOSPEL MISSION ASSOCIATION OF ST. PAUL
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018**

NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Organization (Continued)

Education and Career Development (Continued)

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. Sixteen 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 2019, seven men completed internships in the CD Tech program.

Youth and Family Programs

Our licensed Child Development Center provides services to children between the ages of 6 weeks and 12 years old. In 2019, 60 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 2019.

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 55 students, ages 6 to 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. 47 children were served during 2019.

In 2019, 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 2019, the center served 173 students through discipleship groups, on-site tutoring programs, sports teams, and other activities. This facility is also regularly used by other community programs.

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 2019, 4,324 volunteers reached out to the homeless by volunteering approximately 182,000 hours at the Mission.

UNION GOSPEL MISSION ASSOCIATION OF ST. PAUL
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018

NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Organization (Continued)

Public Education (Continued)

In 2019, 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.

Financial Statement Presentation

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

Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve.

With Donor Restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

The Mission reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates, and those differences could be material.

**UNION GOSPEL MISSION ASSOCIATION OF ST. PAUL
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018**

NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

The Mission considers all cash and highly liquid financial instruments with original maturities of three months or less, which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents. Cash and highly liquid financial instruments restricted to building projects, endowments that are perpetual in nature, or other long-term purposes are excluded from this definition.

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 uncollectability has occurred. At September 30, 2019 and 2018, 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 2019 and 2018. An allowance estimated by management, for uncollectible pledges receivable was \$-0- as of September 30, 2019 and 2018.

Conditional pledges are not included as support until such time as the conditions are substantially met. In 2019, the Mission was notified of four conditional pledges for which the conditions had not been met as of September 30, 2019. Three pledges, totaling \$15,000, are matches for the Mission's November 2019 Radiothon. The final conditional pledge is an \$80,000 match for the Mission's year-end appeal.

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 net realizable 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, 2019 AND 2018

NOTE 1 PRINCIPAL ACTIVITY AND 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 donor restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as without donor restrictions. 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.

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.

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.

UNION GOSPEL MISSION ASSOCIATION OF ST. PAUL
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018

NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

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

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that we can access at the measurement date. The Mission has investments of equities and bonds included in Level 1.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset or liability. In these situations, we develop inputs using the best information available in the circumstances.

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.

Change in Accounting Principle

The Mission has adopted the accounting guidance in Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities, (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* in 2019. These changes were applied retroactively to ensure comparability with the prior year. The update changes presentation and disclosure requirements for nonprofit entities to provide more relevant information about their resources and the changes in those resources to donors, grantors, creditors, and other users. These include qualitative and quantitative requirements in the following areas: net asset classes, investment return, expenses, and liquidity.

Subsequent Events

We have evaluated subsequent events through March 3, 2020, the date the financial statements were available to be issued.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

UNION GOSPEL MISSION ASSOCIATION OF ST. PAUL
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NOTE 2 LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

	<u>2019</u>	<u>2018</u>
Cash and Cash Equivalents	\$ 1,268,576	\$ 824,236
Accounts Receivable	21,100	29,120
Operating Investments	9,777,122	8,809,768
Endowment Spending-Rate Distributions Appropriations	172,000	142,000
Less: Net Assets with Donor Restrictions	<u>(3,685,259)</u>	<u>(3,549,734)</u>
Total	<u>\$ 7,553,539</u>	<u>\$ 6,255,390</u>

Our endowment funds consist of donor-restricted endowments. Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use. Donor-restricted endowment funds are not available for general expenditure.

Our board-designated reserve of \$6,204,818 is available by board action as described in Note 8. Although we do not intend to spend from this board-designated reserve, these amounts could be made available to support general operating expenditures, if necessary.

NOTE 3 INVESTMENTS

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

	<u>2019</u>	<u>2018</u>
Cash and Cash Equivalents	\$ 801,270	\$ 377,120
Mutual Funds - Bonds	804,209	771,644
Mutual Funds - Stocks	1,520,094	1,458,542
Bonds	1,721,216	1,930,992
Stock	<u>4,930,333</u>	<u>4,271,470</u>
Total	<u>\$ 9,777,122</u>	<u>\$ 8,809,768</u>

UNION GOSPEL MISSION ASSOCIATION OF ST. PAUL
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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>2019</u>	<u>2018</u>
Donated Food [In 2019, 210,631 lbs. (134,226 from Second Harvest); in 2018, 183,013 lbs. (101,876 lbs. from Second Harvest) valued at \$1.13/lb. in 2019 and \$1.11/lb. in 2018. Food from Second Harvest valued at \$1.68/lb. in 2019 and \$1.73/lb. in 2018.]	\$ 280,035	\$ 266,308
Donated Clothing (Approximately 90,891 lbs. and 93,996 lbs at \$11.74/lb in 2019 and \$11.58/lb. in 2018, respectively).	1,067,066	1,088,479
Miscellaneous Donated Items	200,169	73,411
Donated Services: Dental and Medical Professionals, Counselors, Attorneys, Pastors, Business Professionals, and Educators	<u>339,105</u>	<u>288,688</u>
Donated Goods and Services	<u>\$ 1,886,376</u>	<u>\$ 1,716,886</u>

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

NOTE 5 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:

	2019			Total
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Investments:				
Mutual Funds - Bonds	\$ 804,209	\$ -	\$ -	\$ 804,209
Mutual Funds - Stocks	1,520,094	-	-	1,520,094
Bonds	-	1,721,216	-	1,721,216
Stocks	4,930,333	-	-	4,930,333
Total	<u>\$ 7,254,636</u>	<u>\$ 1,721,216</u>	<u>\$ -</u>	<u>\$ 8,975,852</u>

UNION GOSPEL MISSION ASSOCIATION OF ST. PAUL
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018

NOTE 5 FAIR VALUE MEASUREMENTS (CONTINUED)

	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
Stock	4,271,470	-	-	4,271,470
Total	<u>\$ 6,501,656</u>	<u>\$ 1,930,992</u>	<u>\$ -</u>	<u>\$ 8,432,648</u>

NOTE 6 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.

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 percent. Actual returns in any given year may vary from this amount.

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NOTE 6 ENDOWMENT (CONTINUED)

Interpretation of Relevant Law

Our 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 date of the donor-restricted endowment funds, unless there are explicit donor stipulations to the contrary. As a result of this interpretation, the Mission retains in perpetuity (a) the original value of initial and subsequent gift amounts (including promises to give net of discount and allowance for doubtful accounts including promises to give at fair value) donated to the Endowment and (b) any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by us in a manner consistent with the standard of prudence prescribed by UPMIFA. We consider the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the organization
- The investment policies of the organization

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:

	Without Donor Restrictions	With Donor Restrictions	2019 Total
Endowment Net Assets - October 1, 2018	\$ -	\$ 3,477,411	\$ 3,477,411
Net Investment Income	-	241,631	241,631
Contributions	-	96,275	96,275
Appropriations of Endowment Assets for Expenditure	-	(142,000)	(142,000)
Endowment Net Assets - September 30, 2019	\$ -	\$ 3,673,317	\$ 3,673,317

UNION GOSPEL MISSION ASSOCIATION OF ST. PAUL
NOTES TO FINANCIAL STATEMENTS
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NOTE 6 ENDOWMENT (CONTINUED)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2018 Total</u>
Endowment Net Assets - October 1, 2017	\$ -	\$ 3,291,494	\$ 3,291,494
Net Investment Income	-	296,917	296,917
Contributions	-	-	-
Appropriations of Endowment Assets for Expenditure	<u>-</u>	<u>(111,000)</u>	<u>(111,000)</u>
Endowment Net Assets - September 30, 2018	<u>\$ -</u>	<u>\$ 3,477,411</u>	<u>\$ 3,477,411</u>

No board-designated endowments existed at September 30, 2019 and 2018.

Investment and Spending Policies

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 percent 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 withdrawals on the Endowment Fund. The withdrawal calculation is based on 5% of the Endowment Fund's three-year average. The Endowment Fund corpus is not to be affected. The annual withdrawal in 2019 and 2018 totaled \$142,000 and \$111,000, respectively.

NOTE 7 NET ASSETS WITHOUT DONOR RESTRICTIONS

The board of directors designates certain funds for a reserve to meet future operating needs and to fund specific board designated projects each year. Funds are designated to the reserve and released from the reserve by board action. Undesignated funds are at the discretion of management for general operating needs. Net assets without donor restrictions consisted of the following at September 30:

	<u>2019</u>	<u>2018</u>
Net Property and Equipment	\$ 11,661,659	\$ 12,124,512
Long-Term Debt, Related Accrued Interest, and Asset Retirement Obligation	<u>(113,313)</u>	<u>(107,406)</u>
Total Designated Property and Equipment	11,548,346	12,017,106
Board Designated Reserve	<u>6,204,818</u>	<u>5,070,715</u>
Total Designated	17,753,164	17,087,821
Total Undesignated	<u>935,049</u>	<u>598,244</u>
Total Net Assets Without Donor Restrictions	<u>\$ 18,688,213</u>	<u>\$ 17,686,065</u>

UNION GOSPEL MISSION ASSOCIATION OF ST. PAUL
NOTES TO FINANCIAL STATEMENTS
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NOTE 8 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes or periods at September 30:

	<u>2019</u>	<u>2018</u>
Subject to Expenditure for Specific Program Purpose	\$ 11,942	\$ 72,323
Endowments:		
Subject to Endowment Spending Policy and Appropriation:		
Earnings on Endowment Funds	1,507,542	1,407,911
Original Donor-Restricted Gift Amount to be Maintained in Perpetuity	<u>2,165,775</u>	<u>2,069,500</u>
Total Endowments	<u>3,673,317</u>	<u>3,477,411</u>
Total Net Assets with Donor Restrictions	<u>\$ 3,685,259</u>	<u>\$ 3,549,734</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the years ended September 30:

	<u>2019</u>	<u>2018</u>
Expiration of Time Restrictions	\$ -	\$ 66,900
Satisfaction of Purpose Restrictions:		
Programs	7,802	4,739
Roofing Project	-	182,085
NFR Heating and Door Project	-	105,000
Furniture	66,235	84,153
Other	<u>10</u>	<u>343</u>
Total	74,047	443,220
Restricted-Purpose Spending-Rate Distributions and Appropriations:		
General Use	<u>142,000</u>	<u>111,000</u>
Total	<u>142,000</u>	<u>111,000</u>
Total Net Assets Released from Donor Restrictions	<u>\$ 216,047</u>	<u>\$ 554,220</u>

UNION GOSPEL MISSION ASSOCIATION OF ST. PAUL
NOTES TO FINANCIAL STATEMENTS
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NOTE 9 EMPLOYEE BENEFITS

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 \$98,339 and \$98,040 for the years ended September 30, 2019 and 2018, respectively. The Mission may also make an annual discretionary contribution to the plan. The Mission did not make a discretionary contribution in 2019 and 2018.