

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

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEARS ENDED SEPTEMBER 30, 2017 AND 2016

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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, 2017 and 2016, 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, 2017 and 2016, 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
January 17, 2018

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**UNION GOSPEL MISSION ASSOCIATION OF ST. PAUL
BALANCE SHEETS
SEPTEMBER 30, 2017 AND 2016**

ASSETS	2017	2016
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 1,044,155	\$ 731,906
Accounts Receivable (Net of Allowance of \$2,000 Each Year)	180,624	44,890
Pledges Receivable - Current Portion	66,780	128,739
Inventories:		
Food	15,867	11,422
Clothing and Other	128,481	181,736
Prepaid Expenses	448,139	258,767
Total Current Assets	1,884,046	1,357,460
OTHER ASSETS		
Investments	9,194,055	9,021,915
PROPERTY AND EQUIPMENT		
Land	984,710	984,710
Buildings and Improvements	19,591,659	18,606,640
Equipment	596,528	652,700
Vehicles	368,319	357,005
Construction in Process	28,061	347,388
Total Property and Equipment	21,569,277	20,948,443
Less: Accumulated Depreciation	(9,352,666)	(8,889,799)
Net Property and Equipment	12,216,611	12,058,644
 Total Assets	 \$ 23,294,712	 \$ 22,438,019

See accompanying Notes to Financial Statements.

LIABILITIES AND NET ASSETS	<u>2017</u>	<u>2016</u>
CURRENT LIABILITIES		
Accounts and Contracts Payable	\$ 435,789	\$ 1,323,210
Accrued Compensation and Benefits	403,676	410,646
Deferred Revenue	108,033	94,676
Total Current Liabilities	<u>947,498</u>	<u>1,828,532</u>
LONG-TERM LIABILITIES		
Asset Retirement Obligation	<u>101,807</u>	<u>96,500</u>
 Total Liabilities	 1,049,305	 1,925,032
NET ASSETS		
Unrestricted:		
Undesignated	1,425,616	407,896
Designated	<u>17,203,972</u>	<u>18,054,420</u>
Total Unrestricted	18,629,588	18,462,316
Temporarily Restricted	1,546,319	1,217,171
Permanently Restricted	<u>2,069,500</u>	<u>833,500</u>
Total Net Assets	<u>22,245,407</u>	<u>20,512,987</u>
 Total Liabilities and Net Assets	 <u>\$ 23,294,712</u>	 <u>\$ 22,438,019</u>

**UNION GOSPEL MISSION ASSOCIATION OF ST. PAUL
STATEMENTS OF ACTIVITIES
YEARS ENDED SEPTEMBER 30, 2017 AND 2016**

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
PUBLIC SUPPORT, REVENUE AND GAINS				
Public Support:				
Contributions	\$ 14,236,107	\$ 330,184	\$ 1,236,000	\$ 15,802,291
Revenue and Gains:				
Realized Gain	628,556	-	-	628,556
Unrealized Gain (Loss)	(310,694)	166,700	-	(143,994)
Interest Income	147,152	52,450	-	199,602
Program Service Fees and Other	1,350,453	-	-	1,350,453
Total Revenue	<u>1,815,467</u>	<u>219,150</u>	<u>-</u>	<u>2,034,617</u>
Net Assets Released from Restriction	<u>220,186</u>	<u>(220,186)</u>	<u>-</u>	<u>-</u>
Total Public Support, Revenue and Gains	16,271,760	329,148	1,236,000	17,836,908
EXPENSE				
Program Services	12,009,051	-	-	12,009,051
Support Services:				
Administrative	1,082,769	-	-	1,082,769
Fundraising	3,012,668	-	-	3,012,668
Total Support Services	<u>4,095,437</u>	<u>-</u>	<u>-</u>	<u>4,095,437</u>
Total Expense	<u>16,104,488</u>	<u>-</u>	<u>-</u>	<u>16,104,488</u>
CHANGE IN NET ASSETS	167,272	329,148	1,236,000	1,732,420
Net Assets - Beginning of Year	<u>18,462,316</u>	<u>1,217,171</u>	<u>833,500</u>	<u>20,512,987</u>
NET ASSETS - END OF YEAR	<u><u>\$ 18,629,588</u></u>	<u><u>\$ 1,546,319</u></u>	<u><u>\$ 2,069,500</u></u>	<u><u>\$ 22,245,407</u></u>

See accompanying Notes to Financial Statements.

2016

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 13,879,385	\$ 292,854	\$ -	\$ 14,172,239
69,827	-	-	69,827
571,086	169,272	-	740,358
155,439	42,132	-	197,571
980,125	-	-	980,125
<u>1,776,477</u>	<u>211,404</u>	<u>-</u>	<u>1,987,881</u>
<u>385,052</u>	<u>(385,052)</u>	<u>-</u>	<u>-</u>
16,040,914	119,206	-	16,160,120
11,674,338	-	-	11,674,338
1,703,275	-	-	1,703,275
2,965,566	-	-	2,965,566
<u>4,668,841</u>	<u>-</u>	<u>-</u>	<u>4,668,841</u>
<u>16,343,179</u>	<u>-</u>	<u>-</u>	<u>16,343,179</u>
(302,265)	119,206	-	(183,059)
<u>18,764,581</u>	<u>1,097,965</u>	<u>833,500</u>	<u>20,696,046</u>
<u>\$ 18,462,316</u>	<u>\$ 1,217,171</u>	<u>\$ 833,500</u>	<u>\$ 20,512,987</u>

UNION GOSPEL MISSION ASSOCIATION OF ST. PAUL
STATEMENTS OF FUNCTIONAL EXPENSE
YEARS ENDED SEPTEMBER 2017 AND 2016

	2017				2016			
	Program Services	Support Services		Total	Program Services	Support Services		Total
		Administrative	Fundraising			Administrative	Fundraising	
Salaries, Benefits and Payroll Taxes	\$ 5,886,449	\$ 654,545	\$ 765,454	\$ 7,306,448	\$ 5,891,945	\$ 596,963	\$ 791,576	\$ 7,280,484
Professional Fees and Stipends	1,094,113	253,079	283,895	1,631,087	905,703	892,439	217,409	2,015,551
Supplies	244,250	24,773	19,057	288,080	325,094	3,797	13,499	342,390
Communications	62,117	2,756	1,976	66,849	101,886	2,338	25,579	129,803
Occupancy and Related Costs	906,127	21,921	9,556	937,604	837,532	31,421	7,535	876,488
Transportation	89,154	9,952	8,607	107,713	120,951	13,098	9,566	143,615
Postage and Printing	42,250	13,384	1,720,469	1,776,103	55,445	10,771	1,609,889	1,676,105
Food Service	922,748	-	-	922,748	997,142	-	-	997,142
Clothing	1,053,239	-	-	1,053,239	1,236,421	-	-	1,236,421
Specific Assistance	652,569	-	500	653,069	66,094	-	-	66,094
Interest Expense	722	49	-	771	-	60	-	60
Other	176,411	59,302	173,845	409,558	190,784	107,110	249,573	547,467
Loss on Disposal of Restaurant	37,496	-	-	37,496	-	-	-	-
Equipment Repairs and Rentals	234,835	22,554	24,386	281,775	431,626	28,923	35,969	496,518
Depreciation	606,571	20,454	4,923	631,948	513,715	16,355	4,971	535,041
Discontinued Operations	-	-	-	-	-	-	-	-
Total	\$ 12,009,051	\$ 1,082,769	\$ 3,012,668	\$ 16,104,488	\$ 11,674,338	\$ 1,703,275	\$ 2,965,566	\$ 16,343,179
Percentage of Total Expense	<u>75%</u>	<u>7%</u>	<u>18%</u>	<u>100%</u>	<u>72%</u>	<u>10%</u>	<u>18%</u>	<u>100%</u>

See accompanying Notes to Financial Statements.

UNION GOSPEL MISSION ASSOCIATION OF ST. PAUL
STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 1,732,420	\$ (183,059)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	631,948	535,041
Realized Gain on Investments	(628,556)	(69,827)
Unrealized (Gain) Loss on Investments	143,994	(740,358)
Net Loss on Disposal of Fixed Assets	37,496	-
(Increase) Decrease in:		
Accounts Receivable	(135,734)	(14,134)
Pledges Receivable	61,959	(53,981)
Inventories	48,810	16,679
Prepaid Expenses	(189,372)	(9,672)
Increase (Decrease) in:		
Accounts and Contracts Payable	(887,421)	798,999
Accrued Compensation and Benefits	(6,970)	(55,794)
Deferred Revenue	13,357	61,383
Asset Retirement Obligation	5,307	5,031
Net Cash Provided by Operating Activities	827,238	290,308
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	(827,411)	(459,946)
Proceeds from Sale of Investments	2,533,105	1,533,732
Purchase of Investments	(2,220,683)	(1,144,718)
Net Cash Used by Investing Activities	(514,989)	(70,932)
 INCREASE IN CASH AND CASH EQUIVALENTS	312,249	219,376
Cash and Cash Equivalents - Beginning of Year	731,906	512,530
 CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 1,044,155	\$ 731,906
 SUPPLEMENTAL INFORMATION		
Interest Paid	\$ 49	\$ 60

See accompanying Notes to Financial Statements.

UNION GOSPEL MISSION ASSOCIATION OF ST. PAUL
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

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 more than 115 years. By meeting physical, spiritual, emotional, and educational needs, our Mission is changing lives!

Food Services – In 2017, nearly 391,000 healthy meals were provided to homeless and hungry people. Two UGM kitchens serve three meals a day. On average, the Men's Campus cafeteria served over 16,000 on-site meals monthly. Additionally, over 1,800 meals were served monthly at our Naomi Family Residence, and two meals a day and snacks were provided at our Child Development Center (over 900 on average per month).

During the week of Thanksgiving, over 56,000 complete take-home meals were given to families in need. Approximately 2,000 meals were delivered to local high rises for Thanksgiving and Christmas. Over 1,700 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 2017, Bethel Hotel provided beds in our emergency shelter for up to 194 men per day, and another 109 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, 1,543 men were served in our shelter and transitional housing facilities.
- Approximately 24 men at a time are taught to rebuild their lives on principles of the Bible in the Mission's residential Discipleship Program. In 2017, 38 men attended classes designed to increase spiritual knowledge, improve academic abilities, and develop important life skills.
- In 2017, Support Services offered case management and therapeutic services to 530 men who have lived 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, address physical and mental health care needs, 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. 111 men were offered the tools needed to break free from the grip of addiction in 2017.

UNION GOSPEL MISSION ASSOCIATION OF ST. PAUL
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Nature of the Organization (Continued)

Women's and Children's Facility – The Naomi Family Residence provides emergency shelter and programming for single women and homeless mothers and children. Focusing on spiritual growth, mental and emotional health, 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 2017, 115 homeless women and children found their home here.

Education and Career Development – The Mission offers a comprehensive approach to education. With 27 computer workstations in two locations, LifeNet offers a self-paced, computer-enhanced curriculum. Students brush up on basic academic skills and computer literacy while developing workplace skills such as punctuality, goal setting, and appropriate communication. In 2017, 163 men and women received academic assistance and life-skills coaching in LifeNet.

WorkNet, a career development program of the Mission, helps candidates discover their strengths, identify their barriers, and learn effective job-search techniques. 48 individuals completed WorkNet training during 2017.

Finding a job is one thing; succeeding at that job is another. SuccessNet is designed to help WorkNet graduates accomplish both. Last year 58% of SuccessNet participants achieved their goals in finding work, returning to school for retraining, or giving back to the community through volunteering. 48% continued to receive support through one-on-one coaching, assistance in customizing resumes, cover letters, and other marketing tools, advice on workplace issues, and supplementary workshops. The goal is for job seekers to become job finders and job finders to become job keepers. It's a safety net for job success! At the end of 2017, there were 12 active participants in Phase 1 and 47 active participants in Phase 2 of this program. Additionally, 66 alumni, men and women who have completed 3 years of SuccessNet, remain in contact with staff and continue to receive SuccessNet communications and invitations to events.

Some of our program graduates are interested in pursuing a particular field through vocational training. This training offers just the right combination of class instruction and hands-on guidance to qualify for gainful employment in a specific trade. Launched in 2016, 15 students have chosen this educational path this year.

The Mission's Chemical Dependency Technician Program provides UGM program graduates with training to gain valuable skills and certifications to build a successful career as a Chemical Dependency Technician. Many of those who have completed the program have gone on to permanent employment in this important field of work. In 2017, 10 individuals participated in this program.

UNION GOSPEL MISSION ASSOCIATION OF ST. PAUL
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

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 of age. In 2017, 50 children were enrolled. Originally developed to care for children of our Naomi Family Residence, today our Child Development Center reaches into the surrounding community and also serves families of individuals employed in the downtown area. In connection with providing quality childcare, the Child Development Center continued to hold the NAEYC Accreditation in 2017.

- The Bethel Buddies mentoring program was offered on Thursday evenings during the school year at Bethel University, providing tutoring opportunities and enrichment for 20 students, ages 6-17 years old, each week.
- The Discovery Program offers the children of Naomi Family Residence 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. 24 children were served during 2017.
- In 2017, 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 2017, the center served 88 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 reaches out to serve youth and their families. The YES, LIGHTHOUSE, and THRIVE programs provide tutoring, mentoring, Bible Studies, and youth groups for elementary, junior high, senior high, and post-secondary students. In 2017, 128 youth and children benefited from these programs.

Clinics – The Mission's dental clinic provides free, quality dental care to those in need. It is open Monday through Thursdays for adult and children's dental care. The clinic is staffed largely by volunteers who come from the St. Paul District Dental Society, the University of Minnesota School of Dentistry, Century College, and Argosy College. We also have many practicing and retired community dentists, dental assistants, hygienists, and Spanish interpreters who volunteer time in our clinic.

Additionally, the clinic offers the Mission for Healthy Smiles school program, which brings lessons on oral health out of the clinic and into the classroom throughout the school year. This past year we were able to reach 1,531 children through this program.

**UNION GOSPEL MISSION ASSOCIATION OF ST. PAUL
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Nature of the Organization (Continued)

Clinics (Continued)

During 2017, the clinic had the following statistics:

- Individual Patients Served: 2,075 adults and 149 children
- Dental Procedures Performed: 11,881
- Volunteer Dentists: 63 individuals serving 2,340 hours
- Other Volunteers: 269 individuals serving 4,394 hours

The dental clinic program was spun off from the Mission in 2017 and became a separate legal entity. The Mission contributed equipment and other support for this transition.

In partnership with Healthcare for the Homeless, the Mission's medical clinic is open on Thursday mornings to serve the clients in our resident programs. The team tests for TB, administers medications, and treats minor injuries.

Public Education – Public Education at the Mission is made up of two components: volunteering and community awareness. The Mission helps connect people in need with people who care through our volunteer program. 3,567 volunteers reach out to the homeless each year by volunteering around 164,000 hours at the Mission.

Community awareness is built through events, print materials, radio spots, videos, e-blasts, and social networking opportunities (Facebook, Twitter, and YouTube) designed to inform and inspire. Many feature interviews with our students sharing 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.

UNION GOSPEL MISSION ASSOCIATION OF ST. PAUL
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

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.

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, 2017 and 2016, 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 2017 and 2016. An allowance estimated by management, for uncollectible pledges receivable was \$-0- as of September 30, 2017 and 2016.

Conditional pledges are not included as support until such time as the conditions are substantially met. In 2017, the Mission was not notified of any conditional pledges for which the conditions had not been met as of September 30, 2017.

UNION GOSPEL MISSION ASSOCIATION OF ST. PAUL
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 statement 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.

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 \$101,807 and \$96,500 at September 30, 2017 and 2016, 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.

UNION GOSPEL MISSION ASSOCIATION OF ST. PAUL
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

**UNION GOSPEL MISSION ASSOCIATION OF ST. PAUL
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 years ended September 30, 2017 and 2016, 54% and 73% of the Mission's pledges receivable were from two donors and one donor, respectively.

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 January 17, 2018, 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:

	2017	2016
Amounts Due In:		
Less Than One Year	\$ 66,780	\$ 128,739
One to Five Years	-	-
Gross Unconditional Promises to Give	\$ 66,780	\$ 128,739

UNION GOSPEL MISSION ASSOCIATION OF ST. PAUL
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

NOTE 3 INVESTMENTS

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

	<u>2017</u>	<u>2016</u>
Cash and Cash Equivalents	\$ 1,170,557	\$ 493,130
Mutual Funds - Bonds	731,417	259,848
Mutual Funds - Stocks	1,382,504	491,158
Bonds	1,939,817	2,646,588
Stock	3,969,760	5,131,191
Total	<u>\$ 9,194,055</u>	<u>\$ 9,021,915</u>

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>2017</u>	<u>2016</u>
Donated Food [In 2017, 158,313 lbs. (127,212 from Second Harvest); in 2016, 190,111 lbs. (76,466 lbs. from Second Harvest) valued at \$1.10/lb. in 2017 and \$1.09/lb. in 2016. Food from Second Harvest valued at \$1.67/lb. in 2017 and \$1.70/lb. in 2016.]	\$ 248,281	\$ 253,562
Donated Clothing (Approximately 84,199 lbs. and 95,774 lbs. at \$11.51/lb. in 2017 and \$12.08/lb. in 2016, respectively)	969,132	1,156,952
Miscellaneous Donated Items	44,273	93,547
Donated Services: Dental and Medical Professionals, Counselors, Attorneys, Pastors, Business Professionals, and Educators	<u>402,671</u>	<u>411,728</u>
Donated Goods and Services	<u>\$ 1,664,357</u>	<u>\$ 1,915,789</u>

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

UNION GOSPEL MISSION ASSOCIATION OF ST. PAUL
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

NOTE 5 NET ASSETS

Unrestricted – Designated

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

	<u>2017</u>	<u>2016</u>
Net Property and Equipment	\$ 12,216,611	\$ 12,058,644
Long-Term Debt, Related Accrued Interest, and Asset Retirement Obligation	<u>(101,807)</u>	<u>(96,500)</u>
Total Designated Property and Equipment	12,114,804	11,962,144
Reserve	<u>5,089,168</u>	<u>6,092,276</u>
Total Designated	<u><u>\$ 17,203,972</u></u>	<u><u>\$ 18,054,420</u></u>

Temporarily Restricted

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

	<u>2017</u>	<u>2016</u>
Other	\$ 340	\$ 909
Dental Clinic Expansion	-	3,464
Youth and Family Educational Supplies	-	34,959
Educational / Employment Programs	-	3,050
Bethel Hotel Improvements	-	43,196
Camp Improvements	-	33,000
NFR Heating and Door Project	75,000	-
Roofing Project	182,085	-
Restricted for Future Use	<u>1,288,894</u>	<u>1,098,593</u>
Total	<u><u>\$ 1,546,319</u></u>	<u><u>\$ 1,217,171</u></u>

Permanently Restricted

Net assets permanently restricted as of September 30, 2017 and 2016 consists of donor gifts, the income of which can be used to support the Society 2002 endowment.

UNION GOSPEL MISSION ASSOCIATION OF ST. PAUL
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

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:

	2017	2016
Restricted for Future Use	\$ 112,749	\$ 74,758
Educational / Employment Programs	3,050	1,450
Dental Clinic Expansion	1,230	18,770
Men's Birthday	225	5,980
Bethel Hotel Improvements	-	252,811
Bethel Laundry Project	43,199	-
Roofing Project	15,340	-
Youth and Family Educational Supplies	34,969	2,545
National Sports Competition	-	3,000
UGM History Project	-	10,579
Other	9,424	15,159
Total Net Assets Released	<u>\$ 220,186</u>	<u>\$ 385,052</u>

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:

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

	2016			
	Level 1	Level 2	Level 3	Total
Investments:				
Mutual Funds - Bonds	\$ 259,848	\$ -	\$ -	\$ 259,848
Mutual Funds - Stocks	491,158	-	-	491,158
Bonds	-	2,646,588	-	2,646,588
Stock	5,131,191	-	-	5,131,191
Total	<u>\$ 5,882,197</u>	<u>\$ 2,646,588</u>	<u>\$ -</u>	<u>\$ 8,528,785</u>

UNION GOSPEL MISSION ASSOCIATION OF ST. PAUL
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

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.

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

UNION GOSPEL MISSION ASSOCIATION OF ST. PAUL
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

NOTE 8 ENDOWMENT (CONTINUED)

Interpretation of Relevant Law (Continued)

- (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.

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>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>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2016 Total</u>
Endowment Net Assets, October 1, 2015	\$ -	\$ 791,440	\$ 833,500	\$ 1,624,940
Investment Return:				
Net Realized and Unrealized Losses	-	169,272	-	169,272
Investment Income	-	42,132	-	42,132
Total Investment Return	-	211,404	-	211,404
Contributions	-	-	-	-
Appropriations of Endowment Assets for Expenditure	-	-	-	-
Endowment Net Assets, September 30, 2016	<u>\$ -</u>	<u>\$ 1,002,844</u>	<u>\$ 833,500</u>	<u>\$ 1,836,344</u>

No board-designated endowments existed at September 30, 2017 and 2016.

UNION GOSPEL MISSION ASSOCIATION OF ST. PAUL
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

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. 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 has 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, 2017 and 2016. The related liability at September 30, 2017 and 2016 was \$45,074 and \$90,092, respectively, and is included in Accrued Compensation and Benefits on the balance sheet. The related investment balances at September 30, 2017 and 2016 were \$45,074 and \$90,092, 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 \$98,582 and \$101,507 for the years ended September 30, 2017 and 2016, respectively. The Mission may also make an annual discretionary contribution to the plan. The Mission did not make a discretionary contribution in 2017 and 2016.

**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 Equipment	-	-	-	-	-	37,496	-	37,496	-	-	-	37,496
Equipment Repairs and Rentals	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

**UNION GOSPEL MISSION ASSOCIATION OF ST. PAUL
SCHEDULE OF FUNCTIONAL EXPENSE
YEAR ENDED SEPTEMBER 30, 2016**

	Program Services							Support Services			2016 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	\$ 366,985	\$ 2,408,575	\$ 607,997	\$ 615,706	\$ 1,166,371	\$ 458,015	\$ 268,296	\$ 5,891,945	\$ 596,963	\$ 791,576	\$ 1,388,539	\$ 7,280,484
Professional Fees and Stipends	39,430	336,862	94,194	34,994	62,451	248,897	88,875	905,703	892,439	217,409	1,109,848	2,015,551
Supplies	2,310	67,179	23,621	9,665	92,630	47,491	82,198	325,094	3,797	13,499	17,296	342,390
Communications	1,301	16,334	2,884	9,078	27,719	1,097	43,473	101,886	2,338	25,579	27,917	129,803
Occupancy and Related Costs	45,696	319,878	150,815	31,932	264,446	15,243	9,522	837,532	31,421	7,535	38,956	876,488
Transportation	3,264	46,316	5,490	5,405	59,862	444	170	120,951	13,098	9,566	22,664	143,615
Postage and Printing	1,439	10,230	3,288	4,886	11,420	5,029	19,153	55,445	10,771	1,609,889	1,620,660	1,676,105
Food Service	865,298	17,438	1,996	5,996	100,712	4,191	1,511	997,142	-	-	-	997,142
Clothing	-	1,236,421	-	-	-	-	-	1,236,421	-	-	-	1,236,421
Specific Assistance	-	-	47,016	6,887	170	250	11,771	66,094	-	-	-	66,094
Interest Expense	-	-	-	-	-	-	-	-	60	-	60	60
Other	7,150	61,081	19,945	9,945	39,127	28,318	25,218	190,784	107,110	249,573	356,683	547,467
Equipment Purchases and Repairs	36,778	208,235	33,269	21,405	104,386	19,859	7,694	431,626	28,923	35,969	64,892	496,518
Depreciation	23,359	168,887	61,706	23,222	192,349	40,060	4,132	513,715	16,355	4,971	21,326	535,041
Total	\$ 1,393,010	\$ 4,897,436	\$ 1,052,221	\$ 779,121	\$ 2,121,643	\$ 868,894	\$ 562,013	\$ 11,674,338	\$ 1,703,275	\$ 2,965,566	\$ 4,668,841	\$ 16,343,179

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