

**Society of St. Vincent de Paul
Council of Seattle/King County**
Financial Statements

September 30, 2017 and 2016

Society of St. Vincent de Paul Council of Seattle/King County

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Independent Auditors' Report

**To Management and the Board of Directors
Society of St. Vincent de Paul Council of Seattle/King County**

Report on the Financial Statements

We have audited the accompanying financial statements of Society of St. Vincent de Paul Council of Seattle/King County (SVDP), a nonprofit organization, which comprise the statements of financial position as of September 30, 2017 and 2016, 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 SVDP 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.

VWC, P.S.

March 6, 2018

Society of St. Vincent de Paul Council of Seattle/King County

Statements of Financial Position

September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<i>Assets</i>		
Current assets:		
Cash	\$ 712,151	\$ 746,208
Accounts receivable	107,538	181,510
Pledges receivable, net of discount	-	96,782
Inventories	422,927	416,732
Prepaid expenses and other	<u>152,313</u>	<u>107,227</u>
Total current assets	1,394,929	1,548,459
Property and equipment, net	13,666,080	13,914,108
Deferred rental income, net	1,560,602	1,466,278
Other assets	<u>112,376</u>	<u>129,431</u>
	<u>\$ 16,733,987</u>	<u>\$ 17,058,276</u>
<i>Liabilities and Net Assets</i>		
Current liabilities:		
Accounts payable	\$ 57,567	\$ 49,409
Accrued expenses	271,953	269,355
Current portion of long-term debt	<u>291,128</u>	<u>290,367</u>
Total current liabilities	620,648	609,131
Long-term debt, net of current portion	<u>8,004,934</u>	<u>8,295,565</u>
Total liabilities	<u>8,625,582</u>	<u>8,904,696</u>
Net assets:		
Unrestricted	7,942,294	7,763,513
Temporarily restricted	<u>166,111</u>	<u>390,067</u>
Total net assets	<u>8,108,405</u>	<u>8,153,580</u>
	<u>\$ 16,733,987</u>	<u>\$ 17,058,276</u>

See accompanying notes to the financial statements.

Society of St. Vincent de Paul Council of Seattle/King County

Statements of Activities

Years Ended September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Unrestricted support and revenues:		
In-kind contributions	\$ 4,575,596	\$ 4,852,407
Thrift store sales	3,781,579	3,858,818
Lease income	1,074,528	1,033,240
Contributions	1,025,129	776,933
Grants	485,227	436,245
Recycling	107,082	84,592
Other	35,794	52,984
Net assets released from restrictions	<u>650,980</u>	<u>571,578</u>
	<u>11,735,915</u>	<u>11,666,797</u>
Expenses:		
Program services	10,391,044	10,464,839
Management and general	848,406	856,954
Fundraising	<u>318,684</u>	<u>310,909</u>
	<u>11,558,134</u>	<u>11,632,702</u>
Increase in unrestricted net assets, before federal income taxes	177,781	34,095
Benefit for federal income taxes	<u>(1,000)</u>	<u>(14,310)</u>
Increase in unrestricted net assets	<u>178,781</u>	<u>48,405</u>
Temporarily restricted net assets:		
Contributions and grants	427,024	634,027
Net assets released from restrictions	<u>(650,980)</u>	<u>(571,578)</u>
Increase (decrease) in temporarily restricted net assets	<u>(223,956)</u>	<u>62,449</u>
Increase (decrease) in net assets	(45,175)	110,854
Net assets, beginning of year	<u>8,153,580</u>	<u>8,042,726</u>
Net assets, end of year	<u>\$ 8,108,405</u>	<u>\$ 8,153,580</u>

See accompanying notes to the financial statements.

Society of St. Vincent de Paul Council of Seattle/King County

Statement of Functional Expenses

Year Ended September 30, 2017

	Program Services			Management and General			Fundraising	Total
	Thrift Stores	Charitable Activities	Total	General and Administrative	Property Management	Total		
Cost of merchandise sold	\$ 3,632,486	\$ 2,484	\$ 3,634,970	\$ 2,019	\$ -	\$ 2,019	\$ -	\$ 3,636,989
Salaries and wages	1,997,528	727,202	2,724,730	286,994	61,499	348,493	171,259	3,244,482
Direct assistance	493	1,930,733	1,931,226	888	-	888	-	1,932,114
Payroll taxes and benefits	383,916	121,996	505,912	64,709	17,803	82,512	21,942	610,366
Interest and bank fees	466,321	398	466,719	11,343	69,509	80,852	4,692	552,263
Depreciation and amortization	253,541	67,050	320,591	48,846	6,504	55,350	-	375,941
Utilities	182,974	14,574	197,548	25,841	-	25,841	-	223,389
Professional fees	18,659	56,846	75,505	79,474	3,120	82,594	35,840	193,939
Maintenance and repairs	62,100	31,315	93,415	43,662	3,174	46,836	2,753	143,004
Insurance	56,140	61,875	118,015	13,241	-	13,241	3,689	134,945
Supplies	49,829	28,186	78,015	24,613	2,264	26,877	3,713	108,605
Advertising	26,349	2,960	29,309	21,203	-	21,203	51,092	101,604
Vehicles	74,320	14,151	88,471	1,744	-	1,744	704	90,919
Business taxes, licenses and dues	29,131	23,424	52,555	2,443	-	2,443	2,780	57,778
Telephone	19,793	8,459	28,252	22,654	1,525	24,179	427	52,858
Postage, printing and mailing	4,818	5,786	10,604	6,690	10	6,700	17,162	34,466
Rent and property taxes	20,097	-	20,097	5,474	-	5,474	-	25,571
Travel and conferences	616	8,136	8,752	14,015	-	14,015	2,556	25,323
Professional development	-	6,358	6,358	7,145	-	7,145	75	13,578
	<u>\$ 7,279,111</u>	<u>\$ 3,111,933</u>	<u>\$ 10,391,044</u>	<u>\$ 682,998</u>	<u>\$ 165,408</u>	<u>\$ 848,406</u>	<u>\$ 318,684</u>	<u>\$ 11,558,134</u>

See accompanying notes to the financial statements.

Society of St. Vincent de Paul Council of Seattle/King County

Statement of Functional Expenses

Year Ended September 30, 2016

	Program Services			Management and General			Fundraising	Total
	Thrift Stores	Charitable Activities	Total	General and Administrative	Property Management	Total		
Cost of merchandise sold	\$ 3,752,343	\$ 6,697	\$ 3,759,040	\$ 14	\$ -	\$ 14	\$ -	\$ 3,759,054
Salaries and wages	1,961,519	729,272	2,690,791	303,953	56,058	360,011	169,881	3,220,683
Direct assistance	20,481	1,937,301	1,957,782	12,183	-	12,183	-	1,969,965
Payroll taxes and benefits	425,716	120,294	546,010	66,846	14,528	81,374	23,969	651,353
Interest and bank fees	475,476	100	475,576	15,403	78,280	93,683	2,304	571,563
Depreciation and amortization	292,961	73,901	366,862	12,920	20,355	33,275	-	400,137
Utilities	162,905	21,267	184,172	13,266	292	13,558	-	197,730
Professional fees	5,645	9,195	14,840	107,518	120	107,638	43,260	165,738
Insurance	58,680	46,561	105,241	13,987	-	13,987	4,761	123,989
Maintenance and repairs	60,304	17,340	77,644	22,804	5,971	28,775	913	107,332
Advertising	18,351	2,955	21,306	31,152	-	31,152	40,541	92,999
Vehicles	70,737	11,974	82,711	3,435	1,059	4,494	1,364	88,569
Supplies	42,610	14,632	57,242	20,117	665	20,782	3,673	81,697
Business taxes, licenses and dues	21,384	21,312	42,696	2,208	458	2,666	3,035	48,397
Postage, printing and mailing	8,820	5,617	14,437	13,030	18	13,048	12,248	39,733
Telephone	8,352	14,415	22,767	12,484	464	12,948	980	36,695
Travel and conferences	2,070	11,935	14,005	13,590	40	13,630	3,385	31,020
Rent and property taxes	20,582	-	20,582	4,929	-	4,929	-	25,511
Professional development	2,685	8,450	11,135	8,807	-	8,807	595	20,537
	<u>\$ 7,411,621</u>	<u>\$ 3,053,218</u>	<u>\$ 10,464,839</u>	<u>\$ 678,646</u>	<u>\$ 178,308</u>	<u>\$ 856,954</u>	<u>\$ 310,909</u>	<u>\$ 11,632,702</u>

See accompanying notes to the financial statements.

Society of St. Vincent de Paul Council of Seattle/King County

Statements of Cash Flows

Years Ended September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ (45,175)	\$ 110,854
Adjustments to reconcile the increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization	361,217	385,094
Changes in operating assets and liabilities:		
Accounts receivable	73,972	(56,444)
Pledges receivable, net of discount	96,782	128,258
Inventories	(6,195)	38,547
Prepaid expenses and other assets	(28,031)	35,621
Deferred rental income, net	(94,324)	(111,093)
Accounts payable	8,158	1,130
Accrued expenses	2,598	17,242
Federal income tax payable	<u>-</u>	<u>(2,038)</u>
Net cash provided by operating activities	<u>369,002</u>	<u>547,171</u>
Cash flows from investing activity:		
Purchase of property and equipment	<u>(113,189)</u>	<u>(61,725)</u>
Net cash used in investing activity	<u>(113,189)</u>	<u>(61,725)</u>
Cash flows from financing activity:		
Repayments on long-term debt	<u>(289,870)</u>	<u>(317,366)</u>
Net cash used in financing activity	<u>(289,870)</u>	<u>(317,366)</u>
Net increase (decrease) in cash	(34,057)	168,080
Cash, beginning of year	<u>746,208</u>	<u>578,128</u>
Cash, end of year	<u>\$ 712,151</u>	<u>\$ 746,208</u>
Supplemental disclosure:		
Cash paid for interest	<u>\$ 447,835</u>	<u>\$ 468,952</u>
Cash refunded for federal income tax	<u>\$ 1,000</u>	<u>\$ 12,272</u>

See accompanying notes to the financial statements.

Society of St. Vincent de Paul Council of Seattle/King County

Notes to Financial Statements

1. Organization and Significant Accounting Policies

Organization

The Society of St. Vincent de Paul Council of Seattle/King County (SVDP) is a nonprofit organization formed in 1921 to provide charitable and social services to the needy and suffering. SVDP maintains and operates retail thrift stores selling donated goods, as well as a food bank serving the needy and homeless, and provides assistance and guidance to 53 parish-based volunteer groups (Conferences) which provide direct one-on-one assistance to the needy in their neighborhoods. All operations take place in Seattle and King County in Washington State. SVDP has thrift stores located in Kenmore, Renton (also referred to as the Rainier property), Kent, Aurora, and Burien. The administrative offices and food bank are located in Georgetown.

SVDP leases certain property to outside parties to supplement operations.

SVDP is managed by a Board of Directors that is comprised primarily of representatives of the 53 Conferences. SVDP provides various means of support to the 53 Conferences including occasional funding and discounted food and thrift store items. The assets, liabilities, net assets, changes in net assets and cash flows of these Conferences are not included in the accompanying financial statements as they operate independently of SVDP with separate officers.

Basis of Presentation

Contributions and net assets are classified based on the existence or absence of donor-imposed restrictions. Accordingly, SVDP reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Donor imposed restrictions that are met within the reporting period are classified as increases in unrestricted net assets.

Cash

SVDP maintains cash in bank accounts which, at times, may exceed federally insured limits. SVDP has not experienced any losses on such accounts.

Employee Advances

SVDP has an internal program to provide financial assistance to employees (excluding SVDP's Officers and Directors) who are experiencing a financial hardship and because of certain Internal Revenue Service regulations cannot access support from individual conferences or SVDP programs. This financial assistance consists of unsecured non-interest bearing payroll advances that are repaid through periodic payroll deductions. Employee advances are expected to be collected within one year from the date of issuance.

Society of St. Vincent de Paul Council of Seattle/King County

Notes to Financial Statements

1. Organization and Significant Accounting Policies, continued

Pledges Receivable

When a donor unconditionally promises to contribute funds in future periods, SVDP records the present value of the estimated future cash flows as a pledge receivable. The discounts on those amounts are computed using interest rates determined by management (4.50% at September 30, 2016), applicable to the years in which the promises are receivable. The net pledges receivable at September 30, 2016 include a discount of \$8,368 and was due during the year ended September 30, 2017. SVDP considers all pledges receivable at September 30, 2016 to be fully collectible; accordingly, no allowance for doubtful accounts is required.

Inventories

Inventories are stated at the estimated sales value at the date of donation.

Property and Equipment, Net

SVDP generally capitalizes long-lived assets with a cost (or estimated fair market value if donated) in excess of \$1,000 and an estimated useful life greater than one year. Property and equipment are stated at cost if purchased or estimated fair value if donated. Property and equipment are depreciated using the straight-line method over their estimated useful lives of three to 40 years.

Impairment of Long-Lived Assets

Long-lived assets are reviewed for potential impairment at such time when events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. An impairment loss would be recognized when the sum of the expected, undiscounted future net cash flows is less than the carrying amount of the asset. There have been no impairment charges related to the write-down of long-lived assets.

Federal Income Tax

SVDP is a nonprofit organization that is generally exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, at time SVDP had taxable income from the rental of certain debt-financed property. During 2015, SVDP restructured their debt-financed property as further discussed in Note 5 which reduced SVDP's taxable income. During 2017 and 2016, SVDP received federal income tax refunds related to this restructuring of debt. The accompanying statements of activities includes a related federal income tax benefit of \$1,000 and \$14,310 for 2017 and 2016, respectively.

Accounting principles generally accepted in the United States of America (GAAP) include guidance that requires the measurement and disclosure of tax benefits arising from uncertain tax positions. As of and for the years ended September 30, 2017 and 2016, this guidance had no material effect on SVDP's financial statements.

Temporarily Restricted Net Assets

Temporarily restricted net assets consist of various contributions received to assist Conferences and for various charitable works performed by SVDP in carrying out its mission.

Society of St. Vincent de Paul Council of Seattle/King County

Notes to Financial Statements

1. Organization and Significant Accounting Policies, continued

Contributions and Donated Services

Contributions, grants, and bequests including unconditional promises to give are recognized as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires or is met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Contributions of food and thrift store merchandise (in-kind contributions) are recorded at their estimated sales value at the time of donation. Substantially all contributed food was donated by two organizations during the years ended September 30, 2017 and 2016.

At times, SVDP receives contributions that are specifically designated for an individual Conference; such donations and related payments are recorded as a pass-through and therefore are excluded from the accompanying statements of activities.

SVDP receives a significant amount of donated services from unpaid volunteers who assist with fundraising and special projects. Approximately 35,000 and 41,000 volunteer hours were contributed during the years ended September 30, 2017 and 2016, respectively. No amounts have been recognized in the accompanying statements of activities because the criteria for recognition under GAAP have not been satisfied.

Thrift Store Sales

SVDP's thrift store sales are recognized at the time of sale, and retail sales exclude sales tax.

Retirement Plan

SVDP provides retirement benefits to eligible employees through a plan (the Plan) established under section 403(b) of the Internal Revenue Code. The Plan includes provisions for employee deferrals only and accordingly no contributions to the Plan were made by SVDP for the years ended September 30, 2017 and 2016.

Advertising Costs

Advertising costs are expensed as incurred.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and changes therein, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Subsequent Events

Management has evaluated subsequent events through March 6, 2018, the date the financial statements were available to be issued.

Society of St. Vincent de Paul Council of Seattle/King County

Notes to Financial Statements

2. *Employee Advances*

At September 30, 2017 and 2016, employee advances totaled \$6,980 and \$6,079, respectively. At September 30, 2017 and 2016, advances expected to be collected within one year and classified in accounts receivable amounted to \$6,980 and \$6,079, respectively.

3. *Inventories*

Inventories consist of the following:

	September 30,	
	2017	2016
Donated goods:		
Thrift merchandise	\$ 325,429	\$ 338,217
Food bank	47,745	33,239
Other	12,699	9,488
Purchased goods	37,054	35,788
	<u>\$ 422,927</u>	<u>\$ 416,732</u>

4. *Property and Equipment, Net*

Property and equipment, net consist of the following:

	September 30,	
	2017	2016
Buildings and improvements	\$ 9,423,082	\$ 9,381,140
Office furniture and equipment	1,212,059	1,150,132
Trucks and other operating equipment	426,760	426,760
	<u>11,061,901</u>	<u>10,958,032</u>
Less accumulated depreciation and amortization	<u>5,013,212</u>	<u>4,651,995</u>
	6,048,689	6,306,037
Land	7,596,195	7,596,195
Construction in progress	21,196	11,876
	<u>\$ 13,666,080</u>	<u>\$ 13,914,108</u>

Society of St. Vincent de Paul Council of Seattle/King County

Notes to Financial Statements

5. Long-Term Debt

Long-term debt consists of the following:

	September 30,	
	2017	2016
Bank Notes, further described on page 13	\$ 2,752,166	\$ 2,832,510
Kent property note payable to bank; monthly principal and interest at 5%; interest reset in April 2019; maturity in March 2024; secured by related property with a carrying value of \$2,580,925 at September 30, 2017; cross collateralized with Bank Notes described on page 13	1,800,605	1,845,888
Aurora property note payable; monthly principal and interest; interest at 6% through maturity in December 2020; secured by related property with a carrying value of \$2,452,351 at September 30, 2017	1,646,235	1,694,151
Rainier property note payable to bank; monthly principal and interest at 5%; interest reset in April 2019; maturity in March 2024; secured by related property with a carrying value of \$1,509,704 at September 30, 2017; cross collateralized with Bank Notes described on page 13	1,109,306	1,137,203
Aurora addition note payable to bank; monthly principal and interest at 5%; interest reset in February 2020; maturity in January 2025; secured by related property with a carrying value of \$1,018,438 at September 30, 2017	577,719	591,334
Burien property note payable; monthly principal and interest; interest at 6.3%; interest becomes variable in May 2017 through maturity in April 2022; secured by related property with a carrying value of \$1,099,232 at September 30, 2017	410,031	484,846
	8,296,062	8,585,932
Less current portion	291,128	290,367
	\$ 8,004,934	\$ 8,295,565

Society of St. Vincent de Paul Council of Seattle/King County

Notes to Financial Statements

5. Long-Term Debt, continued

During the year ended September 30, 2015, SVDP borrowed \$3,040,000 from a commercial bank under three notes ("Bank Notes" on page 12) to pay off the Series 2000A bonds. Two of the notes with initial principal totaling \$2,925,000 provide for monthly principal and interest payments at 5% and mature in December 2024. In December 2019, the interest rate will reset to a variable rate through maturity. The third note in the amount of \$115,000 provides for monthly principal and interest at 5% through maturity in December 2016. The Bank Notes are cross collateralized with the Kent and Rainier property notes payable and are secured by the land and building under the Kenmore store and land and building under Georgetown as well as a second security interest in the Aurora property note payable. The total carrying value of this collateral is \$5,273,162 at September 30, 2017.

Notes with the commercial bank include financial covenants that require the maintenance of a debt to tangible net worth ratio and a specified debt service coverage ratio. SVDP was in compliance with these ratios at September 30, 2017.

Scheduled maturities of long-term debt are as follows:

Year ending September 30,	Bank Notes	Kent	Aurora	Rainier	Aurora Addition	Burien	Total
2018	\$ 69,260	\$ 47,648	\$ 50,871	\$ 29,356	\$ 14,324	\$ 79,669	\$ 291,128
2019	72,355	50,107	54,009	30,870	15,065	84,838	307,244
2020	75,740	52,467	57,340	32,324	15,770	90,343	323,984
2021	80,040	55,429	60,877	34,149	16,665	96,204	343,364
2022	84,193	58,306	64,631	35,921	17,530	58,977	319,558
Thereafter	2,370,578	1,536,648	1,358,507	946,686	498,365	-	6,710,784
	<u>\$ 2,752,166</u>	<u>\$ 1,800,605</u>	<u>\$ 1,646,235</u>	<u>\$ 1,109,306</u>	<u>\$ 577,719</u>	<u>\$ 410,031</u>	<u>\$ 8,296,062</u>

Society of St. Vincent de Paul Council of Seattle/King County

Notes to Financial Statements

6. Lease Income

SVDP leases property to tenants under operating leases expiring at various dates through 2089. The leases include rent escalation or advance payment clauses and one lease includes an option to extend the lease for two additional ten year terms. Total lease income to be received over the terms of these leases has been recognized in the accompanying financial statements on a straight-line basis in accordance with GAAP. The difference between lease income recognized and cash amounts due under these leases has been recorded as deferred rental income, net, in the accompanying statements of financial position. The cost of the leased land and buildings and related accumulated depreciation approximated \$4,032,000 and \$1,059,000 respectively, at September 30, 2017. Minimum lease rentals to be received are as follows:

Year ending <u>September 30,</u>	
2018	\$ 967,258
2019	972,959
2020	973,498
2021	965,279
2022	964,128
Thereafter	<u>55,977,780</u>
	<u>\$ 60,820,902</u>