

**INTERNATIONAL SOCIETY FOR KRISHNA
CONSCIOUSNESS OF WASHINGTON**

FINANCIAL REPORT
(A Review)

DECEMBER 31, 2018

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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Board of Directors
International Society for Krishna Consciousness of Washington
Sammamish, Washington

We have reviewed the accompanying financial statements of International Society for Krishna Consciousness of Washington ("the Society"), which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities and cash flows for the years then ended, and the statement of functional expenses for the year ended December 31, 2018, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

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; 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.

Accountant's Responsibility

Our responsibility is to conduct the review engagements in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountant's Conclusion

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States.

Peterson Sullivan LLP

October 2, 2019

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INTERNATIONAL SOCIETY FOR KRISHNA CONSCIOUSNESS OF WASHINGTON

STATEMENTS OF FINANCIAL POSITION
 (See Independent Accountants' Review Report)
 December 31, 2018 and 2017

ASSETS	2018	2017
	<u> </u>	<u> </u>
Current Assets		
Cash and cash equivalents	\$ 612,050	\$ 419,334
Investments	137,034	82,107
Rent receivable	16,281	12,653
Prepaid expenses	10,000	10,000
	<u> </u>	<u> </u>
Total current assets	775,365	524,094
Rent Receivable, less current portion	18,247	34,528
Property and Equipment, net	9,358,385	8,733,408
	<u> </u>	<u> </u>
Total assets	<u>\$ 10,151,997</u>	<u>\$ 9,292,030</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 29,877	\$ 74,637
Notes payable, current portion	115,604	95,464
	<u> </u>	<u> </u>
Total current liabilities	145,481	170,101
Tenant Security Deposit	10,775	10,775
Notes Payable, less current portion	3,809,951	3,350,424
	<u> </u>	<u> </u>
Total liabilities	3,966,207	3,531,300
Net Assets		
Without donor restrictions	6,185,790	5,760,730
	<u> </u>	<u> </u>
Total liabilities and net assets	<u>\$ 10,151,997</u>	<u>\$ 9,292,030</u>

See Notes to Financial Statements

INTERNATIONAL SOCIETY FOR KRISHNA CONSCIOUSNESS OF WASHINGTON

STATEMENTS OF ACTIVITIES

(See Independent Accountants' Review Report)
For the Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Revenue and Support		
Contributions	\$ 1,568,221	\$ 1,410,728
In-kind contributions	150,000	150,000
Rental income	113,273	107,153
Investment income, net	14,802	11,802
Other income	31,725	5,061
	<u>1,878,021</u>	<u>1,684,744</u>
Total revenue and support	1,878,021	1,684,744
Expenses		
Program	1,246,379	1,300,691
Management and general	206,582	250,509
	<u>1,452,961</u>	<u>1,551,200</u>
Total expenses	1,452,961	1,551,200
Change in net assets	425,060	133,544
Net Assets, beginning of year	<u>5,760,730</u>	<u>5,627,186</u>
Net Assets, end of year	<u>\$ 6,185,790</u>	<u>\$ 5,760,730</u>

See Notes to Financial Statements

INTERNATIONAL SOCIETY FOR KRISHNA CONSCIOUSNESS OF WASHINGTON

STATEMENT OF FUNCTIONAL EXPENSES (See Independent Accountants' Review Report) For the Year Ended December 31, 2018

	Program	Management and General	Total
Programs and events	\$ 519,327	\$ 1,076	\$ 520,403
Interest	150,897	37,724	188,621
Depreciation	128,000	32,000	160,000
In-kind salaries	120,000	30,000	150,000
Maintenance and repair	83,700	20,925	104,625
Taxes and bank charges	54,265	13,566	67,831
Occupancy	48,827	12,207	61,034
Supplies	36,274	19,921	56,195
Professional services	30,634	7,658	38,292
Advertising and promotion	16,882	4,220	21,102
Printing and reproduction	13,172	3,293	16,465
Travel	11,962	2,991	14,953
Assessments		13,200	13,200
Telephone and internet	10,026	2,507	12,533
Insurance	9,836	2,459	12,295
Postage and delivery	4,730	1,183	5,913
Contract services	1,239		1,239
Miscellaneous	6,608	1,652	8,260
	<u>\$ 1,246,379</u>	<u>\$ 206,582</u>	<u>\$ 1,452,961</u>

See Notes to Financial Statements

INTERNATIONAL SOCIETY FOR KRISHNA CONSCIOUSNESS OF WASHINGTON

STATEMENTS OF CASH FLOWS

(See Independent Accountants' Review Report)
For the Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 425,060	\$ 133,544
Adjustment to reconcile change in net assets to net cash flows from operating activities		
Depreciation	160,000	341,910
Realized and unrealized gain on investments	(14,735)	(11,753)
Donated securities	(40,192)	
Bad debt expense		16,626
Changes in operating assets and liabilities		
Rent receivable	12,653	9,123
Prepaid expenses		6,265
Accounts payable	<u>(44,760)</u>	<u>31,184</u>
Net cash flows from operating activities	498,026	526,899
Cash Flows from Investing Activities		
Purchases of investments		(31,576)
Purchases of property and equipment	<u>(200,977)</u>	<u>(21,646)</u>
Net cash flows from investing activities	(200,977)	(53,222)
Cash Flows from Financing Activity		
Payment of notes payable	<u>(104,333)</u>	<u>(586,572)</u>
Change in cash and cash equivalents	192,716	(112,895)
Cash and Cash Equivalents, beginning of year	<u>419,334</u>	<u>532,229</u>
Cash and Cash Equivalents, end of year	<u><u>\$ 612,050</u></u>	<u><u>\$ 419,334</u></u>
Supplemental Disclosure of Cash Flow Information		
Property and equipment purchase financed with note payable	<u>\$ 584,000</u>	<u>\$ -</u>
Interest paid on cash basis	<u>\$ 188,621</u>	<u>\$ 178,553</u>

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

Note 1. Organization and Summary of Significant Accounting Policies

Organization

International Society for Krishna Consciousness of Washington ("the Society") is a Washington nonprofit corporation established in 1971 to educate all peoples in the techniques of spiritual life in order to check the imbalance of values in life and to achieve real unity and peace in the world. The Society seeks to propagate a consciousness of Krishna as it is revealed in the Bhagavad-Gita As It Is, Srimad Bhagavatam, and other authentic Vedic literature. The Society operates the Vedic Cultural Center ("the Center") in Sammamish, Washington, which provides facilities for the greater Seattle community to participate in cultural events, seminars, exhibits, and festivals that help preserve and promote the traditional Vedic arts, cuisine, music, dance, drama, literature, and languages. Over 500 people attend services and events at the Center weekly, and the festivals attract between 5,000 and 25,000 individuals. In addition to religious services, the Center also provides meals on wheels to seniors, provides programs for teens, and distributes free food at the Center for anyone in need.

The Society purchased a building in Bellevue during 2013 to be used as a second location for the Society's religious and community programs. Approximately 60% of the building is expected to be used by the Society, and the remaining space will be rented as office space to tenants (see Note 5). In 2019, the Society obtained a building permit from the City of Bellevue to renovate the building for use for religious services. Once the renovation is complete, the Society will obtain an occupancy permit from the City of Bellevue. The building is expected to become operational for religious services in 2020.

The Society's primary source of revenue is contributions from individuals.

Financial Statement Presentation

The Society reports information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions. Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Expirations of donor restrictions on net assets (the donor-stipulated purpose has been fulfilled or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets. Contributions with donor restrictions are reported as increases in net assets without donor restrictions if the restrictions are met in the year in which the contributions are recognized. There were no net assets with donor restrictions at December 31, 2018 or 2017.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Functional Allocation of Expenses

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Depreciation, occupancy, and repairs and maintenance are allocated based on square footage of the Society's property. All other expenses that are attributed to more than one program or supporting function are generally allocated based on estimated time and effort.

Fundraising Costs

The Society does not maintain accounts for its fundraising costs nor for that portion of activities with a fundraising component. In management's opinion, such costs are not material to the financial statements.

Income Taxes

The Society is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. In addition, the Society qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(1). The Society is subject to tax on unrelated debt-financed rental income.

Fair Value Measurements

Fair value is defined as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement determined based on assumptions that market participants would use in pricing an asset or liability. There are three levels that prioritize the inputs used in measuring fair value as follows:

- Level 1: Observable market inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Observable market inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3: Unobservable inputs where there is little or no market data, which require the reporting entity to develop its own assumptions.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Society considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents. The Society may at times hold cash and cash equivalents in excess of federally insured limits.

Certain cash and cash equivalents are sometimes comingled with investments and are therefore classified as investments (see below).

Investments

The Society accounts for investments at fair value using Level 1 inputs (in this case, quoted prices in active markets). Realized or unrealized gains and losses are included in the change in net assets.

Investments consist of the following at December 31:

	2018	2017
Money market funds	\$ 123,356	\$ 50,185
Common stock	13,678	31,922
	<u>\$ 137,034</u>	<u>\$ 82,107</u>

At December 31, 2017, investments in one common stock represented 38% of total investments. At December 31, 2018, there were no investments that comprised more than 10% of total investments.

Property and Equipment

The Society's current capitalization policy is to capitalize all assets with an estimated service life that exceeds one year and with a cost greater than \$500. Assets are valued at cost, if purchased, or at fair value, if contributed. Depreciation of fixed assets is provided over the estimated service lives of the respective assets on the straight-line basis. Service lives range between 5 and 40 years. The cost of maintenance and repairs is charged to expense as incurred.

Revenue and Support

Contributions – Contribution revenue is recognized when an unconditional pledge is made. The Society does not consider pledges from its congregation to be an unconditional pledge since there is high uncertainty regarding collectibility, as individuals may leave the congregation at any time or not pay at all. Therefore, for these types of pledges, the Society does not recognize revenue until cash or other assets are received.

Rental Income – The Society leases farm land in Auburn to a tenant and office space in Bellevue to a tenant. Rental income is recognized ratably over the terms of the leases. The Bellevue tenant paid rent every other month during the first year of the lease, and a receivable is recorded to recognize the total rental income from the lease recorded on a straight-line basis in excess of rental payments received through December 31, 2018 and 2017.

Donated Goods and Services

A substantial number of volunteers, including the members of the Board of Directors, have made significant contributions of time to the Society. The value of this contributed time does not meet the criteria for recognition under current accounting standards and, accordingly, is not reflected in the accompanying financial statements.

Additionally, the Society receives contributions of management and accounting-related services. Donated professional services totaled \$150,000 for both years ended December 31, 2018 and 2017, and are shown as in-kind contributions in the statements of activities based on the fair value of services provided.

Recent Accounting Pronouncement Adopted

During the year ended December 31, 2018, the Society adopted the provisions of Accounting Standards Update ("ASU") No. 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classifications, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Society has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented, except for the statement of functional expenses and the liquidity and availability of resources note (see Note 2).

Subsequent Events

The Society has evaluated subsequent events through the date these financial statements were available to be issued, which was October 2, 2019.

Note 2. Liquidity and Availability of Resources

The Society strives to maintain liquid assets sufficient to cover 90 days of general expenditures. All investments are available for liquidation to meet upcoming cash needs.

Financial assets available for general expenditure at December 31, 2018, comprise the following:

Cash and cash equivalents	\$	612,050
Investments		137,034
		<hr/>
	\$	749,084
		<hr/> <hr/>

Note 3. Property and Equipment

Property and equipment were as follows at December 31:

	<u>2018</u>	<u>2017</u>
Computers	\$ 8,930	\$ 8,530
Furniture and equipment	329,369	314,277
Buildings	7,479,122	7,249,108
	<hr/>	<hr/>
	7,817,421	7,571,915
Less: accumulated depreciation	<hr/> (1,703,107)	<hr/> (1,543,107)
	6,114,314	6,028,808
Land	3,244,071	2,704,600
	<hr/>	<hr/>
	\$ 9,358,385	\$ 8,733,408
	<hr/> <hr/>	<hr/> <hr/>

Note 4. Notes Payable

The Society has the following loans payable at December 31:

	2018	2017
Loan payable to a bank, secured by the property purchased (with a carrying value of \$5,044,338) with the funds and assignment of rents. The loan bore interest at a fixed rate of 4.86% until August 31, 2018, and principal and interest payments of \$20,921 were due monthly until this date. Beginning September 1, 2018, the loan bears interest at the five-year fixed advance rate of the Federal Home Loan Bank of Seattle plus 3% (resulting in a rate of 6.03% at December 31, 2018), and principal and interest payments of \$21,315 are due monthly until the maturity date of August 31, 2023. The remaining unpaid balance of the loan is also due on the maturity date.	\$ 3,156,568	\$ 3,245,888
Loan payable to a bank, secured by the property purchased (with a carrying value of \$756,582). The loan bears interest at a fixed rate of 5.50% until May 24, 2023, and principal and interest payments of \$4,044 are due monthly until this date. Beginning June 24, 2023, the loan bears interest at the five-year fixed advance rate of the Federal Home Loan Bank of Seattle plus 3%, and principal and interest payments of \$4,200 are due monthly until the maturity date of May 24, 2028. The remaining unpaid balance of the loan is also due on the maturity date.	568,987	
Unsecured loan payable to an individual. No interest or principal payments were due until the maturity date of August 21, 2015. The loan bore interest at a fixed rate of 3% until the maturity date. After the maturity date, the loan bore interest at a fixed rate of 5% through December 31, 2015, and 0% thereafter. The loan balance is still outstanding as of December 31, 2018. The Society expects to pay off the loan balance in full in 2020 unless the balance is forgiven by the lender.	200,000	200,000
	3,925,555	3,445,888
Less: current portion	(115,604)	(95,464)
	\$ 3,809,951	\$ 3,350,424

Certain loans contain financial covenants with which the Society must comply. These financial covenants include a debt service coverage ratio and a working capital threshold. The Society was in compliance with these covenants at December 31, 2018.

Maturities of long-term debt for future years are as follows for the years ending December 31:

2019	\$	115,604
2020		321,692
2021		128,101
2022		134,848
2023		2,753,283
Thereafter		472,027
	\$	<u>3,925,555</u>

Note 5. Tenant Lease Agreements

The Society has a lease to rent space in a building with a cost of \$5,176,478 and a carrying value of \$5,044,338 (\$132,140 of accumulated depreciation thereon) at December 31, 2018, which commenced in 2013 and expires in 2020. The lease requires the tenant to make monthly payments of \$10,155 in 2018, which escalate yearly to a final monthly payment of \$10,775 during the last year of the lease.

On July 1, 2018, the Society entered into a lease to rent farm land in Auburn. The lease requires the tenant to make monthly payments of \$2,000. The lease expired on June 1, 2019, and is currently month-to-month until a new lease agreement is executed.

Total rental income under non-cancelable leases for 2018 and 2017 was \$113,273 and \$107,153, respectively.

Future minimum annual lease payments receivable under noncancelable leases is as follows for the years ending December 31:

2019	\$	134,295
2020		117,260
	\$	<u>251,555</u>