

**INTERNATIONAL SOCIETY FOR KRISHNA
CONSCIOUSNESS OF WASHINGTON**

FINANCIAL REPORT
(A Review)

DECEMBER 31, 2017

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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, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, 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

January 7, 2019

INTERNATIONAL SOCIETY FOR KRISHNA CONSCIOUSNESS OF WASHINGTON

STATEMENTS OF ACTIVITIES

(See Independent Accountants' Review Report)
For the Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Revenue and Support		
Contributions	\$ 1,410,728	\$ 977,176
In-kind contributions	150,000	150,000
Rental income	107,153	40,080
Investment income, net	11,802	5,198
Other income	5,061	8,504
	<u>1,684,744</u>	<u>1,180,958</u>
Total revenue and support	1,684,744	1,180,958
Expenses		
Program	1,300,691	1,054,682
Management and general	250,509	179,061
	<u>1,551,200</u>	<u>1,233,743</u>
Total expenses	1,551,200	1,233,743
Change in net assets	133,544	(52,785)
Net Assets, beginning of year	<u>5,627,186</u>	<u>5,679,971</u>
Net Assets, end of year	<u>\$ 5,760,730</u>	<u>\$ 5,627,186</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, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 133,544	\$ (52,785)
Adjustment to reconcile change in net assets to net cash flows from operating activities		
Depreciation	341,910	161,000
Realized and unrealized gain on investments	(11,753)	(5,149)
Bad debt expense	16,626	18,372
Changes in operating assets and liabilities		
Rent receivable	9,123	37,829
Pledges receivable		(24,466)
Prepaid expenses	6,265	(10,000)
Accounts payable	<u>31,184</u>	<u>8,898</u>
Net cash flows from operating activities	526,899	133,699
Cash Flows from Investing Activities		
Purchases of investments	(31,576)	
Proceeds from sale of investments		53,471
Proceeds from loan receivable - affiliate		25,000
Purchases of property and equipment	<u>(21,646)</u>	<u>(48,382)</u>
Net cash flows from investing activities	(53,222)	30,089
Cash Flows from Financing Activity		
Payment of notes payable	<u>(586,572)</u>	<u>(222,906)</u>
Change in cash and cash equivalents	(112,895)	(59,118)
Cash and Cash Equivalents, beginning of year	<u>532,229</u>	<u>591,347</u>
Cash and Cash Equivalents, end of year	<u>\$ 419,334</u>	<u>\$ 532,229</u>
Supplemental Disclosure of Cash Flow Information		
Interest paid on cash basis	<u>\$ 178,553</u>	<u>\$ 195,850</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 4). Current zoning regulations do not permit the building's use for religious services, but management has a pending application with the City of Bellevue for an administrative conditional use permit.

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 three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Expirations of temporary 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 that are temporarily restricted by the donor are reported as increases in unrestricted net assets if the restrictions are met in the year in which the contributions are recognized. There were no permanently or temporarily restricted net assets at December 31, 2017 or 2016.

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 costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

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 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:

	<u>2017</u>	<u>2016</u>
Money market funds	\$ 50,185	\$ 957
Mutual funds		
Large growth equity funds		34,837
Large blend equity funds		2,452
Common stock	31,922	532
	<u>\$ 82,107</u>	<u>\$ 38,778</u>

At December 31, 2017, investments in one money market fund and one common stock represent 61% and 38% of total investments, respectively. At December 31, 2016, there were no investments that comprised more than 10% of total investments.

Pledges Receivable

Pledges receivable are composed of outstanding contributions. Pledges receivable are recorded at net realizable value. No allowance for doubtful pledges receivable was considered necessary at December 31, 2016. There were no pledges receivable at December 31, 2017.

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 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 office space in Bellevue to a tenant. Rental income is recognized ratably over the terms of the lease. The 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, 2017 and 2016.

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, 2017 and 2016, and are shown as in-kind contributions in the statements of activities based on the fair value of services provided.

Reclassifications

Certain items from the December 31, 2016, financial statements have been reclassified to conform to current presentation. These reclassifications had no impact on net assets or changes in net assets as previously reported.

Subsequent Events

The Society has evaluated subsequent events through the date these financial statements were available to be issued, which was January 7, 2019.

Note 2. Property and Equipment

Property and equipment were as follows at December 31:

	2017	2016
Computers	\$ 8,530	\$ 8,380
Furniture and equipment	314,277	301,987
Buildings	7,249,108	7,239,902
	<u>7,571,915</u>	<u>7,550,269</u>
Less: accumulated depreciation	(1,543,107)	(1,201,197)
	<u>6,028,808</u>	<u>6,349,072</u>
Land	2,704,600	2,704,600
	<u>\$ 8,733,408</u>	<u>\$ 9,053,672</u>

In May 2018, the Society purchased a farm in Auburn, Washington, for \$775,000 with the intention to operate a dairy farm for the benefit of the Society's congregation.

Note 3. Notes Payable

The Society has the following loans payable at December 31:

	2017	2016
Loan payable to a bank, secured by the property purchased (carrying value of \$4.8 million) with the funds and assignment of rents. The loan bears interest at a fixed rate of 4.86% until August 31, 2018, and principal and interest payments of \$20,921 are 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%, 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.	\$ 3,245,888	\$ 3,335,056
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, 2017. The Society expects to pay off the loan balance in full in 2019 unless the balance is forgiven by the lender.	200,000	200,000
Loan payable to a bank, secured by a deed of trust on the Sammamish building. The balance was paid in full in 2017.	<u>3,445,888</u>	<u>497,404</u>
	3,445,888	4,032,460
Less: current portion	(95,464)	(200,880)
	<u>\$ 3,350,424</u>	<u>\$ 3,831,580</u>

In May 2018, the Society obtained a \$584,000 loan from a bank to help finance the purchase of a farm (see Note 2). The loan is secured by the underlying property. The loan bears interest at a fixed rate of 5.5% 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 advanced rate of the Federal Home Loan Bank 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. This loan agreement contains financial covenants with which the Society must comply. These financial covenants include a debt service coverage ratio and a working capital threshold. These financial covenants were not in effect as of December 31, 2017.

Maturities of long-term debt for future years, including the loan obtained in May 2018, are as follows for the years ending December 31:

2018	\$	105,170
2019		315,604
2020		121,692
2021		128,101
2022		134,848
Thereafter		<u>3,224,473</u>
	\$	<u><u>4,029,888</u></u>

Interest expense in 2017 and 2016 was \$178,553 and \$195,850, respectively.

Note 4. Tenant Lease Agreements

The Society has a lease to rent space in a building with a cost of \$5.1 million and a carrying value of \$4.8 million and \$4.9 million (\$0.3 million and \$0.2 million of accumulated depreciation thereon) at December 31, 2017 and 2016, respectively, which commenced in 2013 and expires in 2020. The lease requires the tenant to make monthly payments of \$9,570 and \$9,290 in 2017 and 2016, respectively, 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 a farm. The lease requires the tenant to make monthly payments of \$2,000 and expires on June 1, 2019.

Total rental income for 2017 and 2016 was \$107,153 and \$40,080, respectively.

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

2018	\$	132,668
2019		134,295
2020		<u>117,260</u>
	\$	<u><u>384,223</u></u>