

**OPERATION NIGHTWATCH**  
**FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 (AUDITED)**  
**AND**  
**DECEMBER 31, 2015 (UNAUDITED)**

**OPERATION NIGHTWATCH**  
Years ended December 31, 2016 (Audited) and 2015 (Unaudited)

**TABLE OF CONTENTS**

	<u>Page</u>
Independent Auditors' Report .....	1
Financial Statements:	
Statements of Financial Position .....	2
Statements of Activities .....	3 - 4
Statements of Functional Expenses .....	5 - 6
Statements of Cash Flows.....	7
Notes to the Financial Statements.....	8 - 12

**Independent Auditors' Report**

Board of Directors  
Operation Nightwatch

We have audited the accompanying financial statements of Operation Nightwatch (a nonprofit organization), which comprise the statement of financial position as of December 31, 2016, and the related statements of activities, functional expenses, and cash flows for the year 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 audit. We conducted our audit 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 Operation Nightwatch as of December 31, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Prior Period Financial Statements***

The 2015 financial statements were reviewed by us, and our report thereon, dated August 18, 2016, stated we were not aware of any material modifications that should be made to those statements for them to be in conformity with accounting principles generally accepted in the United States of America. However, a review is substantially less in scope than an audit and does not provide a basis for the expression of an opinion on the financial statements.

*Finney, Neill & Company, P.S.*

Seattle, Washington  
August 16, 2017

**OPERATION NIGHTWATCH**  
**Statements of Financial Position**  
December 31, 2016 (Audited) and 2015 (Unaudited)

	<u>2016</u> (Audited)	<u>2015</u> (Unaudited)
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 385,142	294,092
Receivables	25,421	19,071
Short-term investments	210,488	156,239
Prepaid expenses and other assets	<u>22,939</u>	<u>24,847</u>
Total current assets	<u>643,990</u>	<u>494,249</u>
Long-term investments	-	53,352
Property and equipment:		
Furniture and equipment	77,012	84,546
Land	160,000	160,000
Building and leasehold improvements	666,850	655,671
Less accumulated depreciation	<u>(546,883)</u>	<u>(529,866)</u>
Property and equipment, net	<u>356,979</u>	<u>370,351</u>
Total assets	<u>\$ 1,000,969</u>	<u>917,952</u>
 <b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable	\$ 529	4,155
Accrued liabilities	20,505	21,506
Prepaid rents	6,945	6,095
Key and security deposits	<u>2,025</u>	<u>1,950</u>
Total current liabilities	<u>30,004</u>	<u>33,706</u>
Net assets:		
Unrestricted	947,592	866,606
Temporarily restricted	<u>23,373</u>	<u>17,640</u>
Total net assets	<u>970,965</u>	<u>884,246</u>
Total liabilities and net assets	<u>\$ 1,000,969</u>	<u>917,952</u>

*See accompanying notes and independent auditors' report.*

**OPERATION NIGHTWATCH**  
Statement of Activities  
Year ended December 31, 2016 (Audited)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and revenues:			
Donations	\$ 997,535	-	997,535
Grants and contracts	165,950	18,000	183,950
Rental income	81,357	-	81,357
Interest income	902	-	902
Net assets released from restrictions	12,267	(12,267)	-
Total support and revenue	<u>1,258,011</u>	<u>5,733</u>	<u>1,263,744</u>
Expenses:			
Program services:			
Street ministry	100,914	-	100,914
Dispatch center	671,593	-	671,593
Senior housing	197,129	-	197,129
Education	34,523	-	34,523
Total program services	<u>1,004,159</u>	<u>-</u>	<u>1,004,159</u>
Supporting services:			
Administrative and general	103,152	-	103,152
Fund raising	69,714	-	69,714
Total supporting services	<u>172,866</u>	<u>-</u>	<u>172,866</u>
Total expenses	<u>1,177,025</u>	<u>-</u>	<u>1,177,025</u>
Change in net assets	80,986	5,733	86,719
Net assets at beginning of year	<u>866,606</u>	<u>17,640</u>	<u>884,246</u>
Net assets at end of year	<u>\$ 947,592</u>	<u>23,373</u>	<u>970,965</u>

*See accompanying notes and independent auditors' report.*

**OPERATION NIGHTWATCH**  
Statement of Activities  
Year ended December 31, 2015 (Unaudited)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and revenues:			
Donations	\$ 968,619	-	968,619
Grants and contracts	60,492	17,640	78,132
Rental income	75,314	-	75,314
Interest income	860	-	860
Net assets released from restrictions	<u>19,500</u>	<u>(19,500)</u>	<u>-</u>
Total support and revenue	<u>1,124,785</u>	<u>(1,860)</u>	<u>1,122,925</u>
Expenses:			
Program services:			
Street ministry	103,468	-	103,468
Dispatch center	662,292	-	662,292
Senior housing	174,643	-	174,643
Education	<u>36,017</u>	<u>-</u>	<u>36,017</u>
Total program services	<u>976,420</u>	<u>-</u>	<u>976,420</u>
Supporting services:			
Administrative and general	96,774	-	96,774
Fund raising	<u>74,626</u>	<u>-</u>	<u>74,626</u>
Total supporting services	<u>171,400</u>	<u>-</u>	<u>171,400</u>
Total expenses	<u>1,147,820</u>	<u>-</u>	<u>1,147,820</u>
Change in net assets	(23,035)	(1,860)	(24,895)
Net assets at beginning of year	<u>889,641</u>	<u>19,500</u>	<u>909,141</u>
Net assets at end of year	<u>\$ 866,606</u>	<u>17,640</u>	<u>884,246</u>

*See accompanying notes and independent auditors' report.*

**OPERATION NIGHTWATCH**  
Statement of Functional Expenses  
Year ended December 31, 2016 (Audited)

	Program Services						Supporting Services			Total
	Street Ministry	Dispatch Center	Senior Housing	Education	Program Services	Administrative & General	Fund Raising	Supporting Services		
Salaries and related benefits	\$ 89,919	156,432	96,867	34,523	377,741	62,399	26,355	88,754	466,495	
Shelter	-	250,827	-	-	250,827	-	-	-	250,827	
Food and other	4,126	171,044	1,374	-	176,544	8	33	41	176,585	
Depreciation	522	8,282	16,467	-	25,271	479	-	479	25,750	
Utilities	-	16,888	29,229	-	46,117	-	-	-	46,117	
Office expense	2,964	5,268	19,310	-	27,542	13,203	3,628	16,831	44,373	
Meals and events	427	484	265	-	1,176	183	20,016	20,199	21,375	
Repair and maintenance	-	20,295	21,079	-	41,374	60	-	60	41,434	
Professional services	330	330	2,369	-	3,029	12,164	63	12,227	15,256	
Bus tickets and transportation	1,880	28,557	1,127	-	31,564	10	117	127	31,691	
Printing and postage	33	68	33	-	134	3,227	12,460	15,687	15,821	
Taxes, licenses and fees	232	569	582	-	1,383	5,865	7,042	12,907	14,290	
Telephone	481	2,385	2,147	-	5,013	3,254	-	3,254	8,267	
Insurance	-	10,164	6,280	-	16,444	2,300	-	2,300	18,744	
Totals	\$ 100,914	671,593	197,129	34,523	1,004,159	103,152	69,714	172,866	1,177,025	

See accompanying notes and independent auditors' report.

**OPERATION NIGHTWATCH**  
Statement of Functional Expenses  
Year ended December 31, 2015 (Unaudited)

	Program Services						Supporting Services		
	Street Ministry	Dispatch Center	Senior Housing	Education	Total Program Services	Administrative & General	Fund Raising	Supporting Services	Total
Salaries and related benefits	\$ 95,754	168,745	104,460	36,017	404,976	48,455	24,849	73,304	478,280
Shelter	-	250,410	-	-	250,410	-	-	-	250,410
Food and other	661	168,281	548	-	169,490	20	38	58	169,548
Depreciation	522	10,032	19,616	-	30,170	676	-	676	30,846
Utilities	-	17,438	29,746	-	47,184	-	-	-	47,184
Office expense	3,312	4,499	4,412	-	12,223	13,459	10,072	23,531	35,754
Meals and events	224	399	154	-	777	56	19,123	19,179	19,956
Repair and maintenance	-	6,589	6,554	-	13,143	63	-	63	13,206
Professional services	60	305	85	-	450	20,700	742	21,442	21,892
Bus tickets and transportation	2,134	23,589	612	-	26,335	106	436	542	26,877
Printing and postage	33	33	33	-	99	3,134	13,015	16,149	16,248
Taxes, licenses and fees	146	379	665	-	1,190	4,302	6,351	10,653	11,843
Other losses	-	-	125	-	125	-	-	-	125
Telephone	622	2,485	2,320	-	5,427	3,504	-	3,504	8,931
Insurance	-	9,108	5,313	-	14,421	2,299	-	2,299	16,720
Totals	\$ 103,468	662,292	174,643	36,017	976,420	96,774	74,626	171,400	1,147,820

See accompanying notes and independent auditors' report.



**OPERATION NIGHTWATCH**  
 Statements of Cash Flows  
 Increase (Decrease) in Cash and Cash Equivalents  
 Years ended December 31, 2016 (Audited) and 2015 (Unaudited)

	<u>2016</u> <u>(Audited)</u>	<u>2015</u> <u>(Unaudited)</u>
Cash flows from operating activities:		
Change in net assets	\$ 86,719	(24,895)
Adjustments to reconcile change in net assets to cash provided by (used in) operating activities:		
Depreciation	25,750	30,846
(Increase) decrease in assets:		
Receivables	(6,350)	(3,098)
Prepaid expenses and other assets	1,908	6,073
Increase (decrease) in liabilities:		
Accounts payable	(3,626)	(3,578)
Accrued liabilities	(1,001)	(3,916)
Prepaid rents	850	540
Key and security deposits	75	-
Total adjustments	<u>17,606</u>	<u>26,867</u>
Net cash provided by (used in) operating activities	<u>104,325</u>	<u>1,972</u>
Cash flows from investing activities:		
Purchases of investments	(897)	(854)
Purchases of property and equipment	<u>(12,378)</u>	<u>(8,498)</u>
Net cash provided by (used in) investing activities	<u>(13,275)</u>	<u>(9,352)</u>
Net increase (decrease) in cash and cash equivalents	91,050	(7,380)
Cash and cash equivalents at beginning of year	<u>294,092</u>	<u>301,472</u>
Cash and cash equivalents at end of year	<u>\$ 385,142</u>	<u>294,092</u>

**DISCLOSURE OF ACCOUNTING POLICY**

For purposes of the statement of cash flows, the organization considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

**OPERATION NIGHTWATCH**  
Notes to Financial Statements  
Years ended December 31, 2016 (Audited) and 2015 (Unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Operation Nightwatch (the Organization) is a Washington not-for-profit organization incorporated in 1976, dedicated to serving the homeless in the Seattle community. The Organization provides a variety of services, including street ministry, emergency shelter and meals, low-income housing, and community education. The services offered are funded principally by contributions from individual donors, with the support of hundreds of volunteers each month.

The programs of the Organization are four-fold:

- *Street Ministry*  
Bringing tangible and spiritual support in a variety of non-traditional settings: homeless camps, taverns, shelters, and wherever homeless people gather. Developing friendships and moving people into shelter, housing, treatment, or relocation.
- *Shelter Dispatch Center*  
Providing food and shelter for homeless adults nightly, including off-site shelters for 108 men. Survival and hygiene supplies also available.
- *Senior Housing Program*  
Housing 24 low-income seniors in an SRO (single-room-occupancy) building with shared bathrooms and kitchens. Support services help seniors to maintain housing stability.
- *Education*  
Providing input to decision-makers concerning homeless issues, inviting the broader community to participate in giving care, educating students and religious communities on current issues impacting homeless people.

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

Basis of Presentation

The accompanying financial statements have been prepared in conformity with the disclosure and display requirements of the Financial Accounting Standards Board (FASB) Accounting Standards Codification Topic 958, *Not-for-profit Entities*. This Topic establishes standards for external financial reporting by not-for-profit organizations and requires that resources be classified for accounting and reporting purposes into net asset classes according to donor imposed restrictions. Accordingly, the net assets of the Organization have been reported as follows:

- *Unrestricted net assets* are those currently available at the discretion of the board for use in the activities of the organization
- *Temporarily restricted net assets* are those stipulated by donors for specific operating purposes.

*These notes are an integral part of the financial statements.*

**OPERATION NIGHTWATCH**  
Notes to Financial Statements, continued  
Years ended December 31, 2016 (Audited) and 2015 (Unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Net assets of the temporarily restricted class are created only by donor-imposed restrictions on the use of funds. All other net assets, including Board-designated or appropriated amounts, are reported as part of the unrestricted class.

Receivables

Receivables consist of unsecured contribution receivables and monthly rent receivables from residents. Uncollectible receivables are charged directly to bad debt expense when they are determined to be uncollectible. Use of this method does not result in a material difference from the valuation method required by accounting principles generally accepted in the United States of America.

Investments

Investments are composed of certificates of deposit held for investment that are not debt securities and are carried at fair value. Certificates of deposit with original maturities greater than three months and remaining maturities less than one year are classified as short-term investments. Certificates of deposit with remaining maturities greater than one year are classified as long-term investments.

Property and Equipment and Depreciation

Leasehold improvements and equipment are recorded at cost. The Organization generally follows the practice of capitalizing expenditures for property and equipment in excess of \$500 and with useful lives of greater than two years. As of January 1, 2016, the Organization increased the capitalization threshold to \$1,000.

Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, which is estimated by management to range from three to thirty-nine years. Depreciation expense for the years ended December 31, 2016 and 2015 was \$25,750 and \$30,846, respectively.

The Organization reviews its investment in real estate for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount to the future net undiscounted cash flow expected to be generated and any estimated proceeds from the eventual disposition. There were no impairment losses recognized in 2016 or 2015.

Donated Services

The Organization recognizes donated services which create or enhance non-financial assets or that require specialized skills, which are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. The Organization had numerous volunteers contribute approximately 16,216 and 15,080 hours of time to various projects and programs during 2016 and 2015, respectively. The value of these donated services were not reflected in the financial statements as they did not meet the criteria for recognition.

**OPERATION NIGHTWATCH**  
Notes to Financial Statements, continued  
Years ended December 31, 2016 (Audited) and 2015 (Unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Support and Revenue Recognition

Contributed support is recorded when cash is received or when ownership of donated assets is transferred. The Organization has adopted the FASB Accounting Standards Codification Topic 958, *Not-for-profit Entities*. In accordance with this Topic, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction 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.

Rental income is recognized for apartment rentals as it accrues. Advance receipts of rental income are recorded as liabilities until earned.

Federal Income Taxes

Pursuant to a letter of determination from the Internal Revenue Service, the Organization is a not-for-profit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and is classified as an organization other than a private foundation under Section 509(a)(1) of the Internal Revenue Code. Accordingly, no provision has been made for federal income tax in the accompanying financial statements. The Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A).

The Organization accounts for tax positions in accordance with the FASB Accounting Standards Codification Topic 740, *Income Taxes*. With few exceptions, the Organization is subject to federal and state income tax examinations by tax authorities for the prior three years. Management has reviewed the Organization's tax positions and determined there were no uncertain tax positions as of December 31, 2016 and 2015.

The Organization recognizes income tax related interest in interest expense and penalties in operating expenses. During the years ended December 31, 2016 and 2015, the Organization recognized no income tax related interest or penalties.

Functional Allocation of Expenses

The costs of providing the various program services and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated between the program and supporting services on the basis of benefits received.

**OPERATION NIGHTWATCH**  
Notes to Financial Statements, continued  
Years ended December 31, 2016 (Audited) and 2015 (Unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Accounting Estimates

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

Date of Management's Review

Subsequent events have been evaluated through August 16, 2017, which is the date the financial statements were available to be issued.

2. LEASES

The Organization provides low-income senior housing to qualified individuals. These leases are on a month-to-month basis.

The Organization leases office space under an operating lease with an expiration date of August 31, 2017 and monthly rent payments of \$1,236.

Future minimum lease payments total \$9,888 in 2017, and none thereafter. Total office rental expense, including in-kind donations, under the lease was \$22,032 and \$22,032 for the years ended December 31, 2016 and 2015. Rental expense is included with office expense on the Statement of Functional Expenses.

3. CONCENTRATIONS

The Organization operates one property located in Seattle, Washington. Future operations could be affected by changes in economic or other conditions in that geographical area or by changes in federal and state low-income housing subsidies or the demand for such housing.

4. COMMITMENTS AND CONTINGENCIES

The Organization periodically receives grants and contracts funded by federal, state, and local agencies. These grants and contracts are awarded for periods of up to two years. There is no assurance that grants and contracts currently awarded to the Organization will be awarded in the future. Revenues from these awards and contracts are subject to audits, which could result in adjustments to revenues.

5. RETIREMENT PLAN

As of July 1, 2013, the Organization established a SIMPLE type retirement plan for all eligible employees. The plan includes up to 3% of employees' gross earnings in matching contributions made by the Organization, and the Organization paid \$6,919 and \$6,728 into the plan during the years 2016 and 2015, respectively.

*These notes are an integral part of the financial statements.*

**OPERATION NIGHTWATCH**  
Notes to Financial Statements, continued  
Years ended December 31, 2016 (Audited) and 2015 (Unaudited)

6. DONATED MATERIALS

Accounting principles generally accepted in the United States of America require that the Organization reflects donated materials or equipment, when received, as contributions in the financial statements at their estimated fair market values at the date of receipt. Items donated to the Organization for its programs typically consist of food, clothing, blankets, equipment, office space and personal toiletry products.

During the year ended December 31, 2016, the Organization received and recorded donated food with an estimated value of \$118,461 and donated items and services with an estimated value of \$62,582. During the year ended December 31, 2015, the Organization received and recorded donated food with an estimated value of \$129,284 and donated items and services with an estimated value of \$51,670. One donor was responsible for 45% and 48% of the food donations for 2016 and 2015, respectively.

The Organization provides a hot meal to the homeless of Seattle every night of the year. The number of meals served each night was, on average, approximately 133 and 140, in the years ended December 31, 2016 and 2015. The total number of meals served was 50,797 and 51,171 for the years ended December 31, 2016 and 2015, respectively. The direct cost of program food and supplies is recorded at cost for purchased items and at fair value, when measurable, for donated items. Volunteers prepare and serve the meals. The volunteers also provide a significant portion of the food for the meals, such as soup and other items. The value of food provided by the volunteers is not measurable in dollars, and is therefore not recorded in the financial statements of the Organization.