

OPERATION NIGHTWATCH
FINANCIAL STATEMENTS
DECEMBER 31, 2017 (UNAUDITED)
AND
DECEMBER 31, 2016 (AUDITED)

OPERATION NIGHTWATCH
Years ended December 31, 2017 (Unaudited) and 2016 (Audited)

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Independent Accountants' Review Report

Board of Directors
Operation Nightwatch

We have reviewed the accompanying financial statements of Operation Nightwatch (a nonprofit organization), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities, functional expenses, and cash flows for the year 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 company 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 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.

Accountants' Responsibility

Our responsibility is to conduct the review engagement 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 of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountants' Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying 2017 financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The 2016 financial statements were audited by us, and we expressed an unmodified opinion on them in our report dated August 16, 2017. We have not performed any auditing procedures since that date.

Finney, Neill & Company, P.S.

Seattle, Washington
August 15, 2018

OPERATION NIGHTWATCH
Statements of Financial Position
December 31, 2017 (Unaudited) and 2016 (Audited)

	<u>2017</u> <u>(Unaudited)</u>	<u>2016</u> <u>(Audited)</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 527,142	385,142
Receivables	-	25,421
Short-term investments	211,329	210,488
Prepaid expenses and other assets	<u>17,854</u>	<u>22,939</u>
Total current assets	<u>756,325</u>	<u>643,990</u>
Property and equipment:		
Furniture and equipment	83,990	77,012
Land	160,000	160,000
Building and leasehold improvements	666,850	666,850
Less accumulated depreciation	<u>(566,777)</u>	<u>(546,883)</u>
Property and equipment, net	<u>344,063</u>	<u>356,979</u>
Total assets	<u>\$ 1,100,388</u>	<u>1,000,969</u>
 Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 20,274	529
Accrued liabilities	23,987	20,505
Prepaid rents	6,637	6,945
Key and security deposits	<u>2,025</u>	<u>2,025</u>
Total current liabilities	<u>52,923</u>	<u>30,004</u>
Net assets:		
Unrestricted	1,033,374	947,592
Temporarily restricted	<u>14,091</u>	<u>23,373</u>
Total net assets	<u>1,047,465</u>	<u>970,965</u>
Total liabilities and net assets	<u>\$ 1,100,388</u>	<u>1,000,969</u>

See accompanying notes and independent accountants' review report.

OPERATION NIGHTWATCH
Statement of Activities
Year ended December 31, 2017 (Unaudited)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and revenues:			
Donations	\$ 1,032,447	-	1,032,447
Grants and contracts	138,405	13,800	152,205
Rental income	81,531	-	81,531
Interest income	859	-	859
Net assets released from restrictions	<u>23,082</u>	<u>(23,082)</u>	<u>-</u>
Total support and revenue	<u>1,276,324</u>	<u>(9,282)</u>	<u>1,267,042</u>
Expenses:			
Program services:			
Street ministry	136,491	-	136,491
Dispatch center	658,462	-	658,462
Senior housing	189,179	-	189,179
Education	<u>15,149</u>	<u>-</u>	<u>15,149</u>
Total program services	<u>999,281</u>	<u>-</u>	<u>999,281</u>
Supporting services:			
Administrative and general	110,467	-	110,467
Fund raising	<u>80,794</u>	<u>-</u>	<u>80,794</u>
Total supporting services	<u>191,261</u>	<u>-</u>	<u>191,261</u>
Total expenses	<u>1,190,542</u>	<u>-</u>	<u>1,190,542</u>
Change in net assets	85,782	(9,282)	76,500
Net assets at beginning of year	<u>947,592</u>	<u>23,373</u>	<u>970,965</u>
Net assets at end of year	<u>\$ 1,033,374</u>	<u>14,091</u>	<u>1,047,465</u>

See accompanying notes and independent accountants' review 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 accountants' review report.

OPERATION NIGHTWATCH
Statement of Functional Expenses
Year ended December 31, 2017 (Unaudited)

	Program Services				Supporting Services				
	Street Ministry	Dispatch Center	Senior Housing	Education	Total Program Services	Administrative & General	Fund Raising	Total Supporting Services	Total
Salaries and related benefits	\$ 121,306	182,950	95,582	15,149	414,987	61,376	29,222	90,598	505,585
Shelter	-	226,744	-	-	226,744	-	-	-	226,744
Food and other	7,707	138,055	1,346	-	147,108	43	45	88	147,196
Depreciation	304	7,777	16,606	-	24,687	470	-	470	25,157
Utilities	-	19,597	34,386	-	53,983	-	-	-	53,983
Office expense	3,570	11,928	5,218	-	20,716	19,507	4,292	23,799	44,515
Meals and events	138	623	140	-	901	74	17,409	17,483	18,384
Repair and maintenance	-	24,109	26,210	-	50,319	25	-	25	50,344
Professional services	473	15,023	473	-	15,969	15,195	5,934	21,129	37,098
Bus tickets and transportation	2,157	18,498	491	-	21,146	4	17	21	21,167
Printing and postage	33	36	1	-	70	2,237	14,665	16,902	16,972
Taxes, licenses and fees	319	895	653	-	1,867	4,790	9,146	13,936	15,803
Other losses	-	-	23	-	23	711	-	711	734
Telephone	484	1,864	2,005	-	4,353	3,683	64	3,747	8,100
Insurance	-	10,363	6,045	-	16,408	2,352	-	2,352	18,760
Totals	<u>\$ 136,491</u>	<u>658,462</u>	<u>189,179</u>	<u>15,149</u>	<u>999,281</u>	<u>110,467</u>	<u>80,794</u>	<u>191,261</u>	<u>1,190,542</u>

See accompanying notes and independent accountants' review report.

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

	Program Services					Supporting Services			
	Street Ministry	Dispatch Center	Senior Housing	Education	Total Program Services	Administrative & General	Fund Raising	Total Supporting Services	Total
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
Other losses	-	-	-	-	-	-	-	-	-
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	<u>\$ 100,914</u>	<u>671,593</u>	<u>197,129</u>	<u>34,523</u>	<u>1,004,159</u>	<u>103,152</u>	<u>69,714</u>	<u>172,866</u>	<u>1,177,025</u>

See accompanying notes and independent accountants' review report.

OPERATION NIGHTWATCH
Statements of Cash Flows
Increase (Decrease) in Cash and Cash Equivalents
Years ended December 31, 2017 (Unaudited) and 2016 (Audited)

	<u>2017</u> <u>(Unaudited)</u>	<u>2016</u> <u>(Audited)</u>
Cash flows from operating activities:		
Change in net assets	\$ 76,500	86,719
Adjustments to reconcile change in net assets to cash provided by (used in) operating activities:		
Depreciation	25,157	25,750
Loss on disposal of assets	711	-
(Increase) decrease in assets:		
Receivables	25,421	(6,350)
Prepaid expenses and other assets	5,085	1,908
Increase (decrease) in liabilities:		
Accounts payable	19,745	(3,626)
Accrued liabilities	3,482	(1,001)
Prepaid rents	(308)	850
Key and security deposits	-	75
Total adjustments	<u>79,293</u>	<u>17,606</u>
Net cash provided by (used in) operating activities	<u>155,793</u>	<u>104,325</u>
Cash flows from investing activities:		
Purchases of investments	(841)	(897)
Purchases of property and equipment	<u>(12,952)</u>	<u>(12,378)</u>
Net cash provided by (used in) investing activities	<u>(13,793)</u>	<u>(13,275)</u>
Net increase (decrease) in cash and cash equivalents	142,000	91,050
Cash and cash equivalents at beginning of year	<u>385,142</u>	<u>294,092</u>
Cash and cash equivalents at end of year	<u><u>\$ 527,142</u></u>	<u><u>385,142</u></u>

See accompanying notes and independent accountants' review report.

OPERATION NIGHTWATCH

Notes to Financial Statements

Years ended December 31, 2017 (Unaudited) and 2016 (Audited)

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 poor and homeless people 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 88 men. Survival and hygiene supplies, as well as socks, are 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.

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.

These notes are an integral part of the financial statements.

OPERATION NIGHTWATCH
Notes to Financial Statements, continued
Years ended December 31, 2017 (Unaudited) and 2016 (Audited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Cash and cash equivalents

Cash consists of balances held in checking and money market savings accounts. For purposes of the statement of cash flows, the Organization considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents. The Organization maintains its cash and cash equivalents in bank accounts that may exceed federally insured limits at times during the year. The Organization has not experienced any losses in these accounts, and management does not believe it is exposed to any significant credit risk.

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, 2017 and 2016 was \$25,157 and \$25,750, 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 2017 or 2016.

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 14,242 and 16,216 hours of time to various projects and programs during 2017 and 2016, 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, 2017 (Unaudited) and 2016 (Audited)

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, 2017 and 2016.

The Organization recognizes income tax related interest in interest expense and penalties in operating expenses. During the years ended December 31, 2017 and 2016, 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, 2017 (Unaudited) and 2016 (Audited)

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.

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, 2018 and monthly rent payments of \$1,236. Future minimum lease payments total \$9,888 in 2018, and none thereafter. Total office rental expense, including in-kind donations, under the lease was \$24,000 and \$22,032 for the years ended December 31, 2017 and 2016. Office rental expense is included with office expense on the Statement of Functional Expenses.

The Organization entered into an operating lease agreement to rent shelter space as of October 1, 2017. The lease term is for three months, with renewal options for additional three-month periods available through February 28, 2019. Monthly lease payments under this lease agreement are \$1,950. Shelter rental expenses are included with shelter expenses 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, by changes in federal and state low-income housing subsidies or the demand for such housing, or by zoning, building code or other regulatory restrictions.

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.

The Organization entered into a memorandum of understanding with Catholic Community Services, to provide staffing and operational support for the Organization's shelter ministry for a term of 3 years, beginning October 1, 2017, in exchange for reimbursement of staffing and supplies costs. Costs under this memorandum totaled \$13,258 and \$0 for the years ended December 31, 2017 and 2016.

OPERATION NIGHTWATCH

Notes to Financial Statements, continued

Years ended December 31, 2017 (Unaudited) and 2016 (Audited)

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 \$7,268 and \$6,919 into the plan during the years 2017 and 2016, respectively.

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, 2017, the Organization received and recorded donated food with an estimated value of \$100,503 and donated items and services with an estimated value of \$50,551. 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. One donor was responsible for 54% and 45% of the food donations for 2017 and 2016, respectively.

The Organization provides a hot meal to homeless people of Seattle every night of the year. The number of meals served each night was, on average, approximately 124 and 133, in the years ended December 31, 2017 and 2016. The total number of meals served was 45,184 and 50,797 for the years ended December 31, 2017 and 2016, 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.

7. SUBSEQUENT EVENT

In July 2018, Operation Nightwatch entered into an agreement with a construction contractor to complete repairs and improvements to the building. The project is expected to be completed in 2018 with a cost of approximately \$202,000.

Subsequent events have been evaluated through August 15, 2018, which is the date the financial statements were available to be issued.