

OPERATION NIGHTWATCH
FINANCIAL STATEMENTS
DECEMBER 31, 2019 (UNAUDITED)
AND
DECEMBER 31, 2018 (AUDITED)

OPERATION NIGHTWATCH
Years ended December 31, 2019 (Unaudited) and 2018 (Audited)

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Independent Accountant's 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, 2019, 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 2019 financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Report on 2018 Financial Statements

The 2018 financial statements were audited by us, and we expressed an unmodified opinion on them in our report dated July 10, 2019. We have not performed any auditing procedures since that date.

Finney, Neill & Company, P.S.

Seattle, Washington
October 15, 2020

OPERATION NIGHTWATCH
Statements of Financial Position
December 31, 2019 (Unaudited) and 2018 (Audited)

	<u>2019</u> <u>(Unaudited)</u>	<u>2018</u> <u>(Audited)</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 551,456	514,478
Grants and pledges receivable	81,539	180,471
Short-term investments	216,590	104,603
Restricted cash - tenant deposits	13,134	13,157
Prepaid expenses and other assets	<u>17,376</u>	<u>21,275</u>
Total current assets	<u>880,095</u>	<u>833,984</u>
Long-term investments	-	108,607
Property and equipment:		
Furniture and equipment	110,235	109,242
Land	160,000	160,000
Building and leasehold improvements	939,145	939,145
Less accumulated depreciation	<u>(637,558)</u>	<u>(590,025)</u>
Property and equipment, net	<u>571,822</u>	<u>618,362</u>
Total assets	<u>\$ 1,451,917</u>	<u>1,560,953</u>
 Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 24,281	9,113
Accrued liabilities	31,606	28,490
Prepaid rents	7,012	7,237
Key and security deposits	<u>2,150</u>	<u>2,100</u>
Total current liabilities	<u>65,049</u>	<u>46,940</u>
Net assets:		
Without donor restrictions	1,292,016	1,328,953
With donor restrictions	<u>94,852</u>	<u>185,060</u>
Total net assets	<u>1,386,868</u>	<u>1,514,013</u>
Total liabilities and net assets	<u>\$ 1,451,917</u>	<u>1,560,953</u>

See accompanying notes and independent accountants' review report.

OPERATION NIGHTWATCH
Statement of Activities
Year ended December 31, 2019 (Unaudited)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support and revenues:			
Donations	\$ 1,129,844	-	1,129,844
Grants and contracts	150,056	94,000	244,056
Rental income	82,220	-	82,220
Interest income	3,909	-	3,909
Net assets released from restrictions	<u>184,208</u>	<u>(184,208)</u>	<u>-</u>
Total support and revenue	<u>1,550,237</u>	<u>(90,208)</u>	<u>1,460,029</u>
Expenses:			
Program services:			
Street ministry	214,564	-	214,564
Dispatch center	857,373	-	857,373
Senior housing	246,218	-	246,218
Education	<u>8,368</u>	<u>-</u>	<u>8,368</u>
Total program services	<u>1,326,523</u>	<u>-</u>	<u>1,326,523</u>
Supporting services:			
Administrative and general	152,469	-	152,469
Fundraising	<u>108,182</u>	<u>-</u>	<u>108,182</u>
Total supporting services	<u>260,651</u>	<u>-</u>	<u>260,651</u>
Total expenses	<u>1,587,174</u>	<u>-</u>	<u>1,587,174</u>
Change in net assets	(36,937)	(90,208)	(127,145)
Net assets at beginning of year	<u>1,328,953</u>	<u>185,060</u>	<u>1,514,013</u>
Net assets at end of year	<u><u>\$ 1,292,016</u></u>	<u><u>94,852</u></u>	<u><u>1,386,868</u></u>

See accompanying notes and independent accountants' review report.

OPERATION NIGHTWATCH
Statement of Activities
Year ended December 31, 2018 (Audited)

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenues:			
Donations	\$ 1,422,714	-	1,422,714
Grants and contracts	68,477	180,820	249,297
Rental income	82,735	-	82,735
Interest income	2,093	-	2,093
Net assets released from restrictions	9,851	(9,851)	-
Total support and revenue	1,585,870	170,969	1,756,839
Expenses:			
Program services:			
Street ministry	140,257	-	140,257
Dispatch center	722,983	-	722,983
Senior housing	212,688	-	212,688
Education	8,728	-	8,728
Total program services	1,084,656	-	1,084,656
Supporting services:			
Administrative and general	115,000	-	115,000
Fundraising	90,635	-	90,635
Total supporting services	205,635	-	205,635
Total expenses	1,290,291	-	1,290,291
Change in net assets	295,579	170,969	466,548
Net assets at beginning of year	1,033,374	14,091	1,047,465
Net assets at end of year	\$ 1,328,953	185,060	1,514,013

See accompanying notes and independent accountants' review report.

OPERATION NIGHTWATCH
Statement of Functional Expenses
Year ended December 31, 2019 (Unaudited)

	Program Services				Total Program Services	Supporting Services			Total
	Street Ministry	Dispatch Center	Senior Housing	Education		Administrative & General	Fund Raising	Total Supporting Services	
Salaries and related benefits	\$ 162,790	232,756	126,262	8,368	530,176	76,487	33,630	110,117	640,293
Shelter	-	361,761	-	-	361,761	-	4,200	4,200	365,961
Food and other	7,748	167,085	996	-	175,829	6	52	58	175,887
Depreciation	253	9,353	37,992	-	47,598	243	-	243	47,841
Utilities	-	18,670	31,356	-	50,026	-	-	-	50,026
Office expense	38,194	5,156	5,395	-	48,745	36,131	4,159	40,290	89,035
Meals and events	305	571	207	-	1,083	139	36,278	36,417	37,500
Repair and maintenance	299	27,623	33,788	-	61,710	48	-	48	61,758
Professional services	687	688	792	-	2,167	22,792	945	23,737	25,904
Bus tickets and transportation	3,376	19,740	470	-	23,586	23	7	30	23,616
Printing and postage	37	839	9	-	885	2,033	19,056	21,089	21,974
Taxes, licenses and fees	122	521	589	-	1,232	7,569	9,855	17,424	18,656
Telephone	753	2,384	2,397	-	5,534	4,586	-	4,586	10,120
Insurance	-	10,226	5,965	-	16,191	2,412	-	2,412	18,603
Totals	<u>\$ 214,564</u>	<u>857,373</u>	<u>246,218</u>	<u>8,368</u>	<u>1,326,523</u>	<u>152,469</u>	<u>108,182</u>	<u>260,651</u>	<u>1,587,174</u>

See accompanying notes and independent accountants' review report.

OPERATION NIGHTWATCH
Statement of Functional Expenses
Year ended December 31, 2018 (Audited)

	Program Services				Supporting Services				Total
	Street Ministry	Dispatch Center	Senior Housing	Education	Total Program Services	Administrative & General	Fund Raising	Total Supporting Services	
Salaries and related benefits	\$ 127,419	206,500	117,558	8,728	460,205	70,263	31,075	101,338	561,543
Shelter	-	267,432	-	-	267,432	-	-	-	267,432
Food and other	5,825	156,155	2,111	-	164,091	23	330	353	164,444
Depreciation	-	10,072	15,376	-	25,448	302	-	302	25,750
Utilities	-	18,398	31,406	-	49,804	-	-	-	49,804
Office expense	3,206	6,471	4,418	-	14,095	17,094	4,726	21,820	35,915
Meals and events	209	567	325	-	1,101	112	27,376	27,488	28,589
Repair and maintenance	-	26,726	31,220	-	57,946	244	-	244	58,190
Professional services	829	919	829	-	2,577	12,211	3,000	15,211	17,788
Bus tickets and transportation	2,012	16,958	800	-	19,770	-	50	50	19,820
Printing and postage	24	14	-	-	38	2,469	12,948	15,417	15,455
Taxes, licenses and fees	208	343	472	-	1,023	6,287	10,816	17,103	18,126
Other losses	-	-	25	-	25	-	200	200	225
Telephone	525	1,946	2,033	-	4,504	3,598	114	3,712	8,216
Insurance	-	10,482	6,115	-	16,597	2,397	-	2,397	18,994
Totals	<u>\$ 140,257</u>	<u>722,983</u>	<u>212,688</u>	<u>8,728</u>	<u>1,084,656</u>	<u>115,000</u>	<u>90,635</u>	<u>205,635</u>	<u>1,290,291</u>

See accompanying notes and independent accountants' review report.

OPERATION NIGHTWATCH
Statements of Cash Flows
Years ended December 31, 2019 (Unaudited) and 2018 (Audited)

	<u>2019</u> <u>(Unaudited)</u>	<u>2018</u> <u>(Audited)</u>
Cash flows from operating activities:		
Change in net assets	\$ (127,145)	466,548
Adjustments to reconcile change in net assets to cash provided by (used in) operating activities:		
Depreciation	47,841	25,750
In-kind donations of assets	-	(44,500)
(Increase) decrease in assets:		
Receivables	98,932	(180,471)
Prepaid expenses and other assets	3,899	(3,421)
Increase (decrease) in liabilities:		
Accounts payable	15,168	(11,161)
Accrued liabilities	3,116	4,503
Prepaid rents	(225)	600
Key and security deposits	50	75
Total adjustments	<u>168,781</u>	<u>(208,625)</u>
Net cash provided by (used in) operating activities	<u>41,636</u>	<u>257,923</u>
Cash flows from investing activities:		
Purchases of investments	(3,380)	(1,881)
Purchases of property and equipment	<u>(1,301)</u>	<u>(255,549)</u>
Net cash provided by (used in) investing activities	<u>(4,681)</u>	<u>(257,430)</u>
Net increase (decrease) in cash, cash equivalents and restricted cash	36,955	493
Cash, cash equivalents, and restricted cash at beginning of year	<u>527,635</u>	<u>527,142</u>
Cash, cash equivalents, and restricted cash at end of year	<u>\$ 564,590</u>	<u>527,635</u>
Reconciliation of cash, cash equivalents, and restricted cash:		
Cash and cash equivalents	\$ 551,456	514,478
Restricted cash - tenant deposits	<u>13,134</u>	<u>13,157</u>
Total cash, cash equivalents, and restricted cash in statements of cash flows	<u>\$ 564,590</u>	<u>527,635</u>

See accompanying notes and independent accountants' review report.

OPERATION NIGHTWATCH
Notes to Financial Statements
Years ended December 31, 2019 (Unaudited) and 2018 (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:

- *Net assets without donor restrictions* are those currently available at the discretion of the board for use in the activities of the Organization.
- *Net assets with donor restrictions* restricted by donors to be used for certain purposes or in future periods. Other donor restrictions may be perpetual in nature, where the donor has stipulated the funds be maintained in perpetuity.

OPERATION NIGHTWATCH
Notes to Financial Statements, continued
Years ended December 31, 2019 (Unaudited) and 2018 (Audited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Cash and cash equivalents

Cash and cash equivalents include all cash balances and highly liquid investments with a maturity of three months or less. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments. 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.

Restricted Cash

Restricted cash balances consist of security deposits held for tenants.

Grants and Pledges Receivable

Receivables consist of unsecured contribution and grant receivables. 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. Marketable securities received by the Organization are, by policy, converted to cash soon after receipt, nearly immediately. Therefore, cash received is included in operating cash flows.

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 \$1,000 and with useful lives of greater than two years. 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, 2019 and 2018 was \$47,841 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 2019 or 2018.

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 13,548 and 13,706 hours of time to various projects and programs during 2019 and 2018, 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, 2019 (Unaudited) and 2018 (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 without donor restrictions or with donor restrictions depending on the existence and/or nature of any donor restrictions.

Contributions received with donor stipulations that limit the use of the donated assets are reported as net assets with restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Restricted resources whose restrictions are met in the reporting period received are recorded as net assets without donor 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, 2019 and 2018.

The Organization recognizes income tax related interest in interest expense and penalties in operating expenses. During the years ended December 31, 2019 and 2018, 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. Salaries and related expenses and certain other overhead expenses are allocated based upon a study of time and effort.

OPERATION NIGHTWATCH
Notes to Financial Statements, continued
Years ended December 31, 2019 (Unaudited) and 2018 (Audited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

New Accounting Pronouncement

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. The update clarifies the presentation of restricted cash in the statement of cash flows. A key change required by ASU 2016-18 is that restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. As a result, transfers between cash and restricted cash are not presented as a separate line item in the operating, investing, or financing sections of the cash flow statement. The Company has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

Operation Nightwatch adopted the Financial Accounting Standards Board's (FASB) Accounting Standards Update (ASU) 2018-08, Not-for-Profit Entities (Topic 958) – *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* for revenue transactions. The update assists entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions and (2) determining whether a contribution is conditional. As a result, the ASU enhances comparability of financial information among not-for-profit entities. The change in accounting principle was adopted on a modified prospective basis in 2019. As a result, there was no cumulative-effect adjustment to opening net assets without donor restrictions or opening net assets with donor restrictions as of January 1, 2019. There was no effect of adopting the new accounting principles on contributions in 20182019.

In May 2014, the FASB issued ASU 2016-09, *Revenue from Contracts with Customers (Topic 606)*. ASU 2016-09 outlines a single, comprehensive model for companies to use in accounting for revenue arising from contracts with customers. The core principle of the revenue model is that revenue is recognized when a customer obtains control of a good or service. The change in accounting principle was adopted on the retrospective basis which resulted in no change to revenue previously reported, and also had no effect on the revenue reported for the years ended December 31, 2019 and 2018.

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 October 15, 2020, which is the date the financial statements were available to be issued.

OPERATION NIGHTWATCH
Notes to Financial Statements, continued
Years ended December 31, 2019 (Unaudited) and 2018 (Audited)

2. LIQUIDITY

The following represents the availability of Operation Nightwatch's financial assets at December 31:

	<u>2019</u>	<u>2018</u>
Financial assets at year-end:		
Cash and cash equivalents	\$ 551,456	514,478
Investments	216,590	213,210
Grants and pledges receivable	81,539	180,471
Restricted cash - tenant deposits	<u>13,134</u>	<u>13,157</u>
Total	862,719	921,316
Less amounts not available for general expenditures within one year:		
Liquid net assets with donor restrictions	(94,852)	(185,060)
Add back amounts available for general expenditure in following year	81,500	180,220
Less: cash restricted for tenants	(13,134)	(13,157)
Investments with liquidity horizons greater than one year	<u>-</u>	<u>(108,607)</u>
Financial assets available for general expenditures within one year	<u>\$ 836,233</u>	<u>794,712</u>

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. To help manage unanticipated liquidity needs, the Organization has cash and cash equivalents without restrictions on hand of \$551,456 at December 31, 2019. Additionally, to help manage unanticipated liquidity needs, the Organization maintains certificates of deposit with maturity dates ranging from 9 to 18 months for a total of \$216,590 as of December 31, 2019, which can be sold to help manage unanticipated liquidity needs.

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.

Two donor pledges totaling \$66,500 comprise 82% of the grants and pledges receivable balance as of December 31, 2019 and two donor pledges totaling \$150,000 comprise 83% of the grants and pledges receivable balance as of December 31, 2018.

4. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes or periods at December 31:

	<u>2019</u>	<u>2018</u>
Subject to expenditure for specified purpose:		
Dispatch and street ministry programs	\$ 7,852	4,840
Capital project funds	5,500	-
Subject to the passage of time:		
Pledged donations for periods after December 31:	<u>81,500</u>	<u>180,220</u>
	<u>\$ 94,852</u>	<u>185,060</u>

These notes are an integral part of the financial statements.

OPERATION NIGHTWATCH
Notes to Financial Statements, continued
Years ended December 31, 2019 (Unaudited) and 2018 (Audited)

5. 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, 2020 and monthly rent payments of \$1,236. In January 2019, the Organization entered into a lease for additional office space with an expiration date of December 31, 2020 and monthly rent payments of \$910. Total office rental expense, including in-kind donations, under the lease was \$79,757 and \$26,400 for the years ended December 31, 2019 and 2018. Office rental expense is included with office expense on the Statement of Functional Expenses.

Future minimum lease payments total \$20,808 in 2020 according to the office lease agreements.

The Organization entered into an operating lease agreement to rent shelter space as of October 1, 2017. The lease term ended 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. In March 2019, the Organization signed a new lease for shelter space for a three-month lease term beginning March 1, 2019, with three-month renewal options available through February 28, 2021. Monthly lease payments under this lease are \$2,300.

6. 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 \$8,090 and \$7,569 into the plan during the years 2019 and 2018, respectively.

7. 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, 2019, the Organization received and recorded donated food with an estimated value of \$109,340 and donated items and services with an estimated value of \$102,473. During the year ended December 31, 2018, the Organization received and recorded donated food with an estimated value of \$83,138 and donated items and services with an estimated value of \$122,989. One donor was responsible for 65% and 56% of the food donations for 2019 and 2018, respectively.

OPERATION NIGHTWATCH
Notes to Financial Statements, continued
Years ended December 31, 2019 (Unaudited) and 2018 (Audited)

7. DONATED MATERIALS, continued

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 118 and 125, in the years ended December 31, 2019 and 2018. The total number of meals served was 43,117 and 45,445 for the years ended December 31, 2019 and 2018, 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.

8. 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 three years, beginning October 1, 2017, in exchange for reimbursement of staffing and supplies costs. Costs under this memorandum totaled \$263,003 and \$170,117 for the years ended December 31, 2019 and 2018, and are included in shelter expenses on the statements of functional expenses.

9. SUBSEQUENT EVENTS

On March 11, 2020, the World Health Organization characterized an outbreak of a novel strain of coronavirus (COVID-19) as a pandemic. In addition, multiple jurisdictions in the U.S. have declared a state of emergency. It is anticipated that these impacts will continue for some time. In response to the pandemic, the Organization has suspended some activities and moved others to teleconference and remote work only. The Organization has reduced shelter space capacity to accommodate for adequate social distancing and has altered the manner in which meals are provided in order to improve safety for guests. Changes to the operating environment may increase operating cost and change revenue sources. Additional impacts may include the cancellation of future events and activities, including fundraising events. The future effects of these issues are unknown.

In July 2020, the Organization entered into a memorandum of understanding with a construction contractor to install new windows in a portion of their apartment building. The contract will be billed based on time and materials with no maximum guaranteed costs, and therefore costs to complete this project are not known.