

OPERATION NIGHTWATCH

FINANCIAL STATEMENTS

MARCH 31, 2025

OPERATION NIGHTWATCH
15-month period ended March 31, 2025

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Independent Auditors' Report

Board of Directors
Operation Nightwatch

Opinion

We have audited the accompanying financial statements of Operation Nightwatch (a nonprofit organization), which comprise the statement of financial position as of March 31, 2025, and the related statements of activities, functional expenses, and cash flows for the 15-month period then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Operation Nightwatch as of March 31, 2025, and the changes in its net assets and its cash flows for the 15-month period then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Operation Nightwatch and to meet out other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Operation Nightwatch's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Independent Auditors' Report, continued

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Operation Nightwatch's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Operation Nightwatch's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Finney, Neill & Company, P.S.

Seattle, Washington
July 23, 2025

OPERATION NIGHTWATCH
Statement of Financial Position
March 31, 2025

Assets

Current assets:

| | | |
|--|----|---------------|
| Cash and cash equivalents | \$ | 178,322 |
| Grants and pledges receivable, current | | 136,118 |
| Short-term investments | | 552,971 |
| Restricted cash - tenant deposits | | 14,539 |
| Prepaid expenses and other assets | | <u>16,461</u> |

Total current assets 898,411

Pledges receivable, net of current 115,438

Lease right-of-use asset 17,721

Property and equipment:

| | | |
|-------------------------------------|--|------------------|
| Furniture and equipment | | 170,898 |
| Land | | 160,000 |
| Building and leasehold improvements | | 1,219,059 |
| Less accumulated depreciation | | <u>(919,296)</u> |

Property and equipment, net 630,661

Total assets \$ 1,662,231

Liabilities and Net Assets

Current liabilities:

| | | |
|---------------------------|----|--------------|
| Accounts payable | \$ | 6,171 |
| Accrued liabilities | | 70,010 |
| Prepaid rents | | 7,801 |
| Lease liability, current | | 8,302 |
| Key and security deposits | | <u>2,770</u> |

Total current liabilities 95,054

Lease liability, net of current portion 9,419

Total liabilities 104,473

Net assets:

Without donor restrictions 1,289,843

With donor restrictions 267,915

Total net assets 1,557,758

Total liabilities and net assets \$ 1,662,231

See accompanying notes and independent auditors' report.

OPERATION NIGHTWATCH
Statement of Activities
15-month period ended March 31, 2025

| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
|---------------------------------------|---------------------------------------|------------------------------------|------------------|
| Support and revenues: | | | |
| Contributions | \$ 1,486,138 | 40,837 | 1,526,975 |
| Grants and contracts | 229,409 | 228,406 | 457,815 |
| In-kind donations | 444,088 | - | 444,088 |
| Rental income | 109,712 | - | 109,712 |
| Interest income | 32,965 | - | 32,965 |
| Other income (expense) | 980 | - | 980 |
| Net assets released from restrictions | <u>316,037</u> | <u>(316,037)</u> | <u>-</u> |
| Total support and revenue | <u>2,619,329</u> | <u>(46,794)</u> | <u>2,572,535</u> |
| Expenses: | | | |
| Program services: | | | |
| Street ministry | 278,771 | - | 278,771 |
| Dispatch center | 1,455,838 | - | 1,455,838 |
| Senior housing | 371,454 | - | 371,454 |
| Volunteer Management | <u>147,108</u> | <u>-</u> | <u>147,108</u> |
| Total program services | <u>2,253,171</u> | <u>-</u> | <u>2,253,171</u> |
| Supporting services: | | | |
| Administrative and general | 274,312 | - | 274,312 |
| Fundraising | <u>275,997</u> | <u>-</u> | <u>275,997</u> |
| Total supporting services | <u>550,309</u> | <u>-</u> | <u>550,309</u> |
| Total expenses | <u>2,803,480</u> | <u>-</u> | <u>2,803,480</u> |
| Change in net assets | (184,151) | (46,794) | (230,945) |
| Net assets at beginning of year | <u>1,473,994</u> | <u>314,709</u> | <u>1,788,703</u> |
| Net assets at end of year | <u>\$ 1,289,843</u> | <u>267,915</u> | <u>1,557,758</u> |

See accompanying notes and independent auditors' report.

OPERATION NIGHTWATCH
Statement of Functional Expenses
15-month period ended March 31, 2025

| | Program Services | | | | | Supporting Services | | | |
|--------------------------------|--------------------|--------------------|-------------------|---------------------------|------------------------------|---------------------|-----------------|---------------------------------|------------------|
| | Street Ministry | Dispatch Center | Senior Housing | Volunteer Coordination | Total Program Services | Admin. & General | Fund Raising | Total Supporting Services | Total |
| Salaries and related benefits | \$ 207,366 | 724,294 | 173,084 | 134,278 | 1,239,022 | 189,611 | 158,679 | 348,290 | 1,587,312 |
| Shelter | - | 85,184 | - | - | 85,184 | - | - | - | 85,184 |
| Food and other | 30,638 | 442,931 | 4,012 | 307 | 477,888 | 2,487 | 2,789 | 5,276 | 483,164 |
| Depreciation | - | 40,508 | 46,061 | - | 86,569 | 2,804 | - | 2,804 | 89,373 |
| Other expense | - | 7,759 | 340 | - | 8,099 | - | - | - | 8,099 |
| Utilities | 1,235 | 39,679 | 32,861 | 186 | 73,961 | 1,334 | 186 | 1,520 | 75,481 |
| Office expense | 20,115 | 1,824 | 2,000 | 3,315 | 27,254 | 30,494 | 3,126 | 33,620 | 60,874 |
| Meals and events | 17 | 3,798 | 430 | 896 | 5,141 | 4,380 | 35,610 | 39,990 | 45,131 |
| Repair and maintenance | 1,911 | 64,413 | 99,074 | 433 | 165,831 | 3,477 | 636 | 4,113 | 169,944 |
| Professional services | 8,179 | 23,765 | 5,761 | 3,925 | 41,630 | 24,614 | 22,954 | 47,568 | 89,198 |
| Bus tickets and transportation | 1,791 | 5,400 | 53 | 333 | 7,577 | - | 7 | 7 | 7,584 |
| Printing and postage | 1,591 | 1,941 | 1,578 | 903 | 6,013 | 4,221 | 25,476 | 29,697 | 35,710 |
| Taxes, licenses and fees | 2,639 | 2,543 | 2,688 | 252 | 8,122 | 5,492 | 24,228 | 29,720 | 37,842 |
| Telephone | - | 930 | 1,012 | 482 | 2,424 | 902 | - | 902 | 3,326 |
| Insurance | 3,289 | 10,869 | 2,500 | 1,798 | 18,456 | 4,496 | 2,306 | 6,802 | 25,258 |
| Totals | <u>\$ 278,771</u> | <u>1,455,838</u> | <u>371,454</u> | <u>147,108</u> | <u>2,253,171</u> | <u>274,312</u> | <u>275,997</u> | <u>550,309</u> | <u>2,803,480</u> |

See accompanying notes and independent auditors' report.

OPERATION NIGHTWATCH
Statement of Cash Flows
15-month period ended March 31, 2025

| | |
|---|-------------------|
| Cash flows from operating activities: | |
| Change in net assets | \$ (230,945) |
| Adjustments to reconcile change in net assets | |
| to cash provided by (used in) operating activities: | |
| Depreciation | 89,374 |
| (Increase) decrease in assets: | |
| Receivables | (88,438) |
| Prepaid expenses and other assets | 36,623 |
| Increase (decrease) in liabilities: | |
| Accounts payable | (25,208) |
| Accrued liabilities | 19,026 |
| Prepaid rents | (1,715) |
| Key and security deposits | <u>270</u> |
| Total adjustments | <u>29,932</u> |
| Net cash provided by (used in) operating activities | <u>(201,013)</u> |
| Cash flows from investing activities: | |
| Sales (purchases) of investments | (31,326) |
| Purchases of property and equipment | <u>(158,437)</u> |
| Net cash provided by (used in) investing activities | <u>(189,763)</u> |
| Net increase (decrease) in cash, cash equivalents and restricted cash | (390,776) |
| Cash, cash equivalents, and restricted cash at beginning of year | <u>583,637</u> |
| Cash, cash equivalents, and restricted cash at end of year | <u>\$ 192,861</u> |
| Reconciliation of cash, cash equivalents, and restricted cash: | |
| Cash and cash equivalents | \$ 178,322 |
| Restricted cash - tenant deposits | <u>14,539</u> |
| Total cash, cash equivalents, and restricted cash in statements of cash flows | <u>\$ 192,861</u> |

See accompanying notes and independent auditors' report.

OPERATION NIGHTWATCH
Notes to Financial Statements
15-Month Period Ended March 31, 2025

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, tiny house villages, shelters, and wherever homeless people gather. Developing relationships 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 men and women. 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.
- *Volunteer*
More than 1,000 volunteers annually provide support in all aspects of the organization. Walking the streets with the ministry teams, cooking the nightly meal, providing hospitality services in all programs, and supporting housing and shelter clients with stability and security.

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.

Change in Fiscal Year-End

The Organization changed its fiscal year-end from December 31 to March 31, effective in the current reporting period, in order to align its budgeting and reporting cycles with donor giving trends and timing of awards. Accordingly, the accompanying statement of activities and statement of cash flows present the results of operations and cash flows for the fifteen-month period from January 1, 2024 through March 31, 2025. Previously issued financial statements for the year ended December 31, 2023, cover a 12-month period and, therefore, are not directly comparable.

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:

OPERATION NIGHTWATCH
Notes to Financial Statements, continued
15-Month Period Ended March 31, 2025

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

- *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.

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

Grants and pledges receivable are unconditional promises to give that are recognized as revenues or gains in the period received and as assets, decrease of liabilities, or expenses depending on the form of the benefits received. 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.

The Organization has deemed that all grants and pledges receivable recorded at March 31, 2025 and are collectible. For long-term pledges receivable, management has recorded a present-value discount of \$50,266 as of March 31, 2025, calculated using a discount rate of 4.14%, which estimates the Organization's incremental borrowing rate.

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 donated to the Organization are, by policy, converted to cash soon after receipt, nearly immediately. Therefore, donations of marketable securities are 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 \$2,000 and with useful lives beyond one year and other items with individual unit value in excess of \$1,500 and a useful life of more than a year. 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 15-month period ended March 31, 2025 was \$89,374.

These notes are an integral part of the financial statements.

OPERATION NIGHTWATCH
Notes to Financial Statements, continued
15-Month Period Ended March 31, 2025

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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 for the 15-month period ending March 31, 2025.

Leases

The Organization leases office space, shelter space, and equipment as lessee. The Organization determines if an arrangement is a lease at inception.

ROU assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of the leases do not provide an implicit rate, the Organization uses a risk-free rate based on the information available at commencement date in determining the present value of lease payments. The ROU lease asset also includes any lease payments made and excludes lease incentives. The lease terms may include options to extend or terminate the lease when it is reasonably certain that the Organization will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

The Organization has elected to apply the short-term lease exemption to all classes of underlying assets. For the 15-month period ending March 31, 2025, there were three short-term leases in effect whose non-cancellable lease terms are either month-to-month or ending on or before March 31, 2026. The total future payments in 2026 expected under short-term lease arrangements totaled approximately \$4,548.

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 18,395 hours of time to various projects and programs during the 15-month period ended March 31, 2025. The value of these donated services was not reflected in the financial statements as they did not meet the criteria for recognition.

Support and Revenue Recognition

The Organization recognizes contributions when cash, securities, or other assets, such as an unconditional promise to give or a notification of beneficial interest, is received. Conditional promises to give – that is, those with a measurable performance or other barrier and a right of return – are not recognized until the conditions on which they depend have been met. Conditional contributions whose conditions are met in the same reporting period as the period in which the contribution was received are recorded as unconditional contributions.

The Organization leases residential units in its building to low-income seniors at below-market rent rates under short-term leasing arrangements (with terms of one year or less). Rental income is recognized for apartment rentals as it accrues. Advance receipts of rental income are recorded as liabilities until earned. Rental income was \$109,712 for the 15-month period ended March 31, 2025.

OPERATION NIGHTWATCH
Notes to Financial Statements, continued
15-Month Period Ended March 31, 2025

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Restricted Support

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.

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 March 31, 2025.

The Organization recognizes income tax related interest in interest expense and penalties in operating expenses. During the 15-month period ended March 31, 2025, 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.

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 July 23, 2025, which is the date the financial statements were available to be issued.

OPERATION NIGHTWATCH
Notes to Financial Statements, continued
15-Month Period Ended March 31, 2025

2. LIQUIDITY

The following represents the availability of Operation Nightwatch’s financial assets at March 31, 2025:

| | |
|--|------------|
| Financial assets at year-end: | |
| Cash and cash equivalents | \$ 178,322 |
| Investments | 552,971 |
| Grants and pledges receivable | 251,556 |
| Restricted cash - tenant deposits | 14,539 |
| Total | 997,388 |
| Less amounts not available for general expenditures within one year: | |
| Liquid net assets with donor restrictions | (267,915) |
| Add back amounts available for general expenditure in following year | 136,118 |
| Less: cash restricted for tenants | (14,539) |
| Financial assets available for general expenditures within one year | \$ 851,052 |

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 over \$175,000 at March 31, 2025. Additionally, to help manage unanticipated liquidity needs, the Organization maintains certificates of deposit with maturity dates ranging from 9 to 12 months for a total of \$552,971 as of March 31, 2025, 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.

Four donors’ pledges comprised ~99% of the grants and pledges receivable balance as of March 31, 2025.

4. PLEDGES RECEIVABLE

Pledges receivable consist of unconditional promises to give by individuals, foundations, and other supporters. All pledges are expected to be realized, and therefore there is no allowance for uncollectible pledges at March 31, 2025. Pledges receivable due in greater than one year are discounted to present value using a discount rate of 4.14%, the Organization’s estimated incremental borrowing rate.

OPERATION NIGHTWATCH
Notes to Financial Statements, continued
15-Month Period Ended March 31, 2025

4. PLEDGES RECEIVABLE, continued

Pledges receivable at March 31, 2025 are expected to be realized as follows:

| | | |
|----------------------------------|----|----------|
| In less than one year | \$ | 136,118 |
| In one to five years | | 51,400 |
| Thereafter | | 114,304 |
| | | 301,822 |
| Less: Discount on future pledges | | (50,266) |
| Pledges receivable, net | \$ | 251,556 |

5. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes or periods at March 31, 2025:

| | | |
|---|----|---------|
| Subject to expenditure for specified purpose: | | |
| Capacity building and development | \$ | 7,213 |
| Shelter staffing | | 6,082 |
| Dispatch vehicles and capital purchases | | 3,064 |
| Other | | - |
| | | 16,359 |
| Subject to the passage of time: | | |
| Pledged donations for periods after March 31: | | 251,556 |
| | | 251,556 |
| | \$ | 267,915 |

6. LEASES

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

On March 14, 2022, the Organization entered into a six-month office lease agreement for office space with monthly payments of \$3,500, plus monthly triple net payments, under a month-to-month lease term. On January 1, 2025, the lease was extended for a five-year term that is cancellable by the landlord in the event of the building's sale. The amended lease requires monthly payments of \$3,677, escalating annually by 3%. Total office rental expense under these leases was \$54,087 for the 15-month period ended March 31, 2025. Office rental expense is included with office expense on the Statements of Functional Expenses.

In May 2025, the Organization amended the office lease agreement to include additional storage space for the same lease term of 5 years unless cancelled by the landlord, with additional monthly payments of \$800, escalating by 3% annually.

OPERATION NIGHTWATCH
Notes to Financial Statements, continued
15-Month Period Ended March 31, 2025

6. LEASES, continued

In 2022, the Organization entered into a lease for shelter space for a twelve-month lease term beginning June 1, 2022 and ending May 31, 2023. The lease agreement calls for monthly payments of \$800. This lease was extended through May 31, 2025 and requires monthly payments of \$1,200.

On October 1, 2024, the Organization entered into a month-to-month lease agreement for shelter space. The lease calls for monthly lease payments of \$1, plus utilities reimbursements.

On July 1, 2022, the Organization entered into five-year operating lease for multiple copiers and printers, which requires monthly payments of \$677. The lease term ends June 30, 2027.

The components of lease expense were as follows for the 15-month period ended March 31, 2025:

| | |
|-----------------------|-------------------|
| Operating lease cost | \$ 13,523 |
| Variable lease cost | 53,705 |
| In-kind lease cost | 18,000 |
| Short-term lease cost | <u>74,869</u> |
| | <u>\$ 160,097</u> |

Other information related to leases was as follows for the 15-month period ended March 31, 2025:

| | |
|---|------------|
| Risk Free Discount Rate Used | 2.88% |
| Remaining lease term (years) | 2.25 years |
| ROU Asset - Operating Leases | \$ 17,721 |
| Supplemental Cash Flow Information: | |
| Operating cash used by operating leases | \$ 13,523 |

Future minimum lease payments under non-cancellable leases are as follows for the 15-month period ended March 31, 2025:

| | |
|-------------------------------------|------------------|
| 2026 | \$ 8,124 |
| 2027 | 8,124 |
| 2028 | 2,031 |
| Thereafter | <u>-</u> |
| Total future minimum lease payments | 18,279 |
| Less: imputed interest | <u>(558)</u> |
| Total | <u>\$ 17,721</u> |

OPERATION NIGHTWATCH
Notes to Financial Statements, continued
15-Month Period Ended March 31, 2025

7. 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 \$13,184 into the plan during the 15-month period ended March 31, 2025.

8. 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. Food donations are generally valued at fair value on a per-pound basis using published valuation guidelines, while other items and services are valued at fair value on a per-item basis based on the price of the item or service on the open market.

Donated materials are included in donations revenue in the statement of activities and are reported according to their nature and purpose in the statement of functional expenses. Donated goods and services were comprised of the following for the 15-month period ended March 31, 2025:

| | |
|--------------------------|-------------------|
| Food | \$ 315,857 |
| Socks and blankets | 62,037 |
| Other goods and supplies | 48,194 |
| Use of shelter space | <u>18,000</u> |
| | <u>\$ 444,088</u> |

The Organization provides a meal to homeless people of Seattle every night of the year. The number of meals served each night was, on average, approximately 156 in the 15-month period ended March 31, 2025. The total number of meals served was 71,046 for the 15-month period ended March 31, 2025, 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.

9. 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.