

**OPERATION NIGHTWATCH**  
**FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015 (UNAUDITED)**  
**AND**  
**DECEMBER 31, 2014 (AUDITED)**

**OPERATION NIGHTWATCH**  
Years ended December 31, 2015 (Unaudited) and 2014 (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, 2015, 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 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 2014 financial statements were audited by us, and we expressed an unqualified opinion on them in our report dated July 30, 2015, but we have not performed any auditing procedures since that date.

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

Seattle, Washington  
August 18, 2016

**OPERATION NIGHTWATCH**  
**Statements of Financial Position**  
December 31, 2015 (Unaudited) and 2014 (Audited)

	<u>2015</u> <u>(Unaudited)</u>	<u>2014</u> <u>(Audited)</u>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 294,092	301,472
Receivables	19,071	15,973
Short-term investments	156,239	208,737
Prepaid expenses and other assets	<u>24,847</u>	<u>30,920</u>
Total current assets	<u>494,249</u>	<u>557,102</u>
Long-term investments	53,352	-
Property and equipment:		
Furniture and equipment	84,546	83,826
Land	160,000	160,000
Building and leasehold improvements	655,671	655,671
Less accumulated depreciation	<u>(529,866)</u>	<u>(506,798)</u>
Property and equipment, net	<u>370,351</u>	<u>392,699</u>
Total assets	<u>\$ 917,952</u>	<u>949,801</u>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable	\$ 4,155	7,733
Accrued liabilities	21,506	25,422
Prepaid rents	6,095	5,555
Key and security deposits	<u>1,950</u>	<u>1,950</u>
Total current liabilities	<u>33,706</u>	<u>40,660</u>
Net assets:		
Unrestricted	866,606	889,641
Temporarily restricted	<u>17,640</u>	<u>19,500</u>
Total net assets	<u>884,246</u>	<u>909,141</u>
Total liabilities and net assets	<u>\$ 917,952</u>	<u>949,801</u>

*See accompanying notes and independent accountants' review 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><u>\$ 866,606</u></u>	<u><u>17,640</u></u>	<u><u>884,246</u></u>

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

**OPERATION NIGHTWATCH**  
Statement of Activities  
Year ended December 31, 2014 (Audited)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and revenues:			
Donations	\$ 883,455	-	883,455
Grants and contracts	131,338	19,500	150,838
Rental income	75,099	-	75,099
Interest income	991	-	991
Net assets released from restrictions	-	-	-
Total support and revenue	<u>1,090,883</u>	<u>19,500</u>	<u>1,110,383</u>
Expenses:			
Program services:			
Street ministry	66,797	-	66,797
Dispatch center	624,404	-	624,404
Senior housing	197,150	-	197,150
Education	19,084	-	19,084
Total program services	<u>907,435</u>	<u>-</u>	<u>907,435</u>
Supporting services:			
Administrative and general	110,197	-	110,197
Fund raising	62,413	-	62,413
Total supporting services	<u>172,610</u>	<u>-</u>	<u>172,610</u>
Total expenses	<u>1,080,045</u>	<u>-</u>	<u>1,080,045</u>
Change in net assets	10,838	19,500	30,338
Net assets at beginning of year	<u>878,803</u>	<u>-</u>	<u>878,803</u>
Net assets at end of year	<u>\$ 889,641</u>	<u>19,500</u>	<u>909,141</u>

*See accompanying notes and independent accountants' review 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	Total 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	<u>\$ 103,468</u>	<u>662,292</u>	<u>174,643</u>	<u>36,017</u>	<u>976,420</u>	<u>96,774</u>	<u>74,626</u>	<u>171,400</u>	<u>1,147,820</u>

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

**OPERATION NIGHTWATCH**  
Statement of Functional Expenses  
Year ended December 31, 2014 (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	\$ 64,005	174,045	125,410	19,084	382,544	45,150	19,623	64,773	447,317
Shelter	-	206,762	-	-	206,762	-	-	-	206,762
Food and other	1,335	175,982	272	-	177,589	25	308	333	177,922
Depreciation	217	11,600	23,066	-	34,883	1,028	-	1,028	35,911
Utilities	-	18,162	32,444	-	50,606	-	-	-	50,606
Office expense	131	2,417	1,155	-	3,703	27,930	283	28,213	31,916
Meals and events	108	639	223	-	970	144	25,364	25,508	26,478
Repair and maintenance	-	9,484	6,801	-	16,285	-	-	-	16,285
Professional services	-	1,234	-	-	1,234	26,124	1,094	27,218	28,452
Bus tickets and transportation	353	12,563	429	-	13,345	2	356	358	13,703
Printing and postage	66	82	32	-	180	-	11,035	11,035	11,215
Taxes, licenses and fees	80	450	330	-	860	4,250	4,350	8,600	9,460
Other losses	-	-	100	-	100	69	-	69	169
Telephone	502	2,384	1,871	-	4,757	3,372	-	3,372	8,129
Insurance	-	8,600	5,017	-	13,617	2,103	-	2,103	15,720
Totals	<u>\$ 66,797</u>	<u>624,404</u>	<u>197,150</u>	<u>19,084</u>	<u>907,435</u>	<u>110,197</u>	<u>62,413</u>	<u>172,610</u>	<u>1,080,045</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, 2015 (Unaudited) and 2014 (Audited)**

	<u>2015</u> <u>(Unaudited)</u>	<u>2014</u> <u>(Audited)</u>
Cash flows from operating activities:		
Change in net assets	\$ (24,895)	30,338
Adjustments to reconcile change in net assets to cash provided by (used in) operating activities:		
Depreciation	30,846	35,911
(Increase) decrease in assets:		
Receivables	(3,098)	(15,513)
Prepaid expenses and other assets	6,073	(12,896)
Increase (decrease) in liabilities:		
Accounts payable	(3,578)	7,733
Accrued liabilities	(3,916)	(2,502)
Prepaid rents	540	(890)
Key and security deposits	-	(75)
Total adjustments	<u>26,867</u>	<u>11,768</u>
Net cash provided by (used in) operating activities	<u>1,972</u>	<u>42,106</u>
Cash flows from investing activities:		
Purchases of investments	(854)	(984)
Purchases of property and equipment	<u>(8,498)</u>	<u>(3,541)</u>
Net cash provided by (used in) investing activities	<u>(9,352)</u>	<u>(4,525)</u>
Net increase (decrease) in cash and cash equivalents	(7,380)	37,581
Cash and cash equivalents at beginning of year	<u>301,472</u>	<u>263,891</u>
Cash and cash equivalents at end of year	<u><u>\$ 294,092</u></u>	<u><u>301,472</u></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, 2015 (Unaudited) and 2014 (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 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, 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, 2015 (Unaudited) and 2014 (Audited)

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. 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, 2015 and 2014 was \$30,846 and \$35,911, 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 2015 or 2014.

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 15,080 and 20,199 hours of time to various projects and programs during 2015 and 2014, 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, 2015 (Unaudited) and 2014 (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, 2015 and 2014.

The Organization recognizes income tax related interest in interest expense and penalties in operating expenses. During the years ended December 31, 2015 and 2014, 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, 2015 (Unaudited) and 2014 (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.

Date of Management's Review

Subsequent events have been evaluated through August 18, 2016, 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, 2016 and monthly rent payments of \$1,236.

Future minimum lease payments total \$9,888 in 2016. Total office rental expense, including in-kind donations, under the lease was \$22,032 and \$21,744 for the years ended December 31, 2015 and 2014.

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 \$6,728 and \$5,382 into the plan during the years 2015 and 2014, respectively.

## OPERATION NIGHTWATCH

Notes to Financial Statements, continued

Years ended December 31, 2015 (Unaudited) and 2014 (Audited)

### 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, 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. During the year ended December 31, 2014, the Organization received and recorded donated food with an estimated value of \$135,285 and donated items and services with an estimated value of \$47,625. One donor was responsible for 48% and 56% of the food donations for 2015 and 2014, 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 140 and 147, in the years ended December 31, 2015 and 2014. The total number of meals served was 51,171 and 53,549 for the years ended December 31, 2015 and 2014, 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.