

OPERATION NIGHTWATCH
FINANCIAL STATEMENTS
DECEMBER 31, 2022 (AUDITED)
AND
DECEMBER 31, 2021 (UNAUDITED)

OPERATION NIGHTWATCH
Years ended December 31, 2022 (Audited) and 2021 (Unaudited)

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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 December 31, 2022, and the related statements of activities, functional expenses, and cash flows for the year 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 December 31, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 opinions.

Prior Period Financial Statements

The 2021 financial statements were reviewed by us, and our report thereon, dated April 7, 2022, stated we were not aware of any material modifications that should be made to those financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. However, a review is substantially less in scope than an audit and does not provide a basis for the expression of an opinion on the financial statements as a whole.

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, Hill & Company, P.S.

Seattle, Washington
November 13, 2023

OPERATION NIGHTWATCH
Statements of Financial Position
December 31, 2022 (Audited) and 2021 (Unaudited)

	2022 (Audited)	2021 (Unaudited)
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,172,531	1,176,931
Grants and pledges receivable, current	220,535	55,128
Short-term investments	106,562	219,148
Restricted cash - tenant deposits	11,539	11,653
Prepaid expenses and other assets	57,997	50,502
Total current assets	1,569,164	1,513,362
Long-term investments	113,226	-
Pledges receivable, net of current	95,082	-
Lease right-of-use asset	34,249	-
Property and equipment:		
Furniture and equipment	167,265	118,533
Land	160,000	160,000
Building and leasehold improvements	1,080,391	1,080,391
Less accumulated depreciation	(785,923)	(729,523)
Property and equipment, net	621,733	629,401
Total assets	\$ 2,433,454	2,142,763
 Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 27,625	360
Accrued liabilities	50,568	56,742
Prepaid rents	7,260	6,971
Lease liability, current	7,233	-
Key and security deposits	2,300	2,000
Total current liabilities	94,986	66,073
Lease liability, net of current portion	27,016	-
Total liabilities	122,002	66,073
Net assets:		
Without donor restrictions	1,775,389	1,799,191
With donor restrictions	536,063	277,499
Total net assets	2,311,452	2,076,690
Total liabilities and net assets	\$ 2,433,454	2,142,763

See accompanying notes and independent auditors' report.

OPERATION NIGHTWATCH
Statement of Activities
Year ended December 31, 2022 (Audited)

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenues:			
Contributions	1,425,357	140,954	1,566,311
Grants and contracts	49,207	222,332	271,539
In-kind donations	194,611	-	194,611
Rental income	76,685	-	76,685
Interest income	1,421	-	1,421
Other income	37,871	-	37,871
Net assets released from restrictions	104,722	(104,722)	-
Total support and revenue	1,889,874	258,564	2,148,438
Expenses:			
Program services:			
Street ministry	323,324	-	323,324
Dispatch center	907,510	-	907,510
Senior housing	255,529	-	255,529
Total program services	1,486,363	-	1,486,363
Supporting services:			
Administrative and general	316,169	-	316,169
Fundraising	111,144	-	111,144
Total supporting services	427,313	-	427,313
Total expenses	1,913,676	-	1,913,676
Change in net assets	(23,802)	258,564	234,762
Net assets at beginning of year	1,799,191	277,499	2,076,690
Net assets at end of year	\$ 1,775,389	536,063	2,311,452

See accompanying notes and independent auditors' report.

OPERATION NIGHTWATCH
Statement of Activities
Year ended December 31, 2021 (Unaudited)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support and revenues:			
Donations	1,403,345	10,000	1,413,345
Grants and contracts	143,453	264,000	407,453
In-kind donations	197,496	-	197,496
Rental income	76,216	-	76,216
Interest income	385	-	385
Other income	322	-	322
Net assets released from restrictions	<u>56,115</u>	<u>(56,115)</u>	<u>-</u>
Total support and revenue	<u>1,877,332</u>	<u>217,885</u>	<u>2,095,217</u>
Expenses:			
Program services:			
Street ministry	273,030	-	273,030
Dispatch center	733,633	-	733,633
Senior housing	296,456	-	296,456
Education	<u>4,999</u>	<u>-</u>	<u>4,999</u>
Total program services	<u>1,308,118</u>	<u>-</u>	<u>1,308,118</u>
Supporting services:			
Administrative and general	180,941	-	180,941
Fundraising	<u>114,868</u>	<u>-</u>	<u>114,868</u>
Total supporting services	<u>295,809</u>	<u>-</u>	<u>295,809</u>
Total expenses	<u>1,603,927</u>	<u>-</u>	<u>1,603,927</u>
Change in net assets	273,405	217,885	491,290
Net assets at beginning of year	<u>1,525,786</u>	<u>59,614</u>	<u>1,585,400</u>
Net assets at end of year	<u>\$ 1,799,191</u>	<u>277,499</u>	<u>2,076,690</u>

See accompanying notes and independent auditors' report.

OPERATION NIGHTWATCH
Statement of Functional Expenses
Year ended December 31, 2022 (Audited)

	Program Services				Supporting Services			
	Street Ministry	Dispatch Center	Senior Housing	Total Program Services	Admin. & General	Fund Raising	Total Supporting Services	Total
Salaries and related benefits	\$ 273,141	487,738	114,056	874,935	221,186	53,289	274,475	1,149,410
Shelter	-	79,682	-	79,682	-	-	-	79,682
Food and other	15,956	181,954	3,911	201,821	908	22	930	202,751
Depreciation	-	43,993	22,494	66,487	1,534	-	1,534	68,021
Utilities	317	18,251	29,805	48,373	787	-	787	49,160
Office expense	21,122	11,404	6,866	39,392	36,562	915	37,477	76,872
Meals and events	715	808	217	1,740	3,496	8,626	12,122	13,862
Repair and maintenance	1,699	48,888	62,823	113,410	8,786	74	8,860	122,270
Professional services	3,854	10,704	5,371	19,929	20,375	8,289	28,664	48,595
Bus tickets and transportation	2,997	9,280	189	12,466	162	9	171	12,637
Printing and postage	1,631	1,691	1,375	4,697	4,536	27,151	31,687	36,384
Taxes, licenses and fees	37	1,000	876	1,913	9,135	12,315	21,450	23,363
Bad debt and other expense	-	-	-	-	2,402	-	2,402	2,402
Telephone	1,855	2,563	1,972	6,390	2,437	454	2,891	9,281
Insurance	-	9,554	5,574	15,128	3,863	-	3,863	18,991
Totals	\$ 323,324	907,510	255,529	1,486,363	316,169	111,144	427,313	1,913,681

See accompanying notes and independent auditors' report.

OPERATION NIGHTWATCH
Statement of Functional Expenses
Year ended December 31, 2021 (Unaudited)

	Program Services					Supporting Services			
	Street Ministry	Dispatch Center	Senior Housing	Education	Total Program Services	Admin. & General	Fund Raising	Total Supporting Services	Total
Salaries and related benefits	\$ 210,647	371,721	123,914	4,999	711,281	86,617	36,385	123,002	834,283
Shelter	-	113,474	-	-	113,474	-	-	-	113,474
Food and other	15,657	165,882	3,169	-	184,708	958	-	958	185,666
Depreciation	434	12,494	45,518	-	58,446	509	-	509	58,955
Utilities	-	17,071	29,959	-	47,030	-	-	-	47,030
Office expense	41,171	9,563	8,341	-	59,075	38,745	4,294	43,039	102,114
Meals and events	568	803	322	-	1,693	188	20,946	21,134	22,827
Repair and maintenance	-	26,196	73,539	-	99,735	605	1,648	2,253	101,988
Professional services	469	2,163	2,044	-	4,676	24,953	4,964	29,917	34,593
Bus tickets and transportation	2,665	(202)	38	-	2,501	-	-	-	2,501
Printing and postage	78	1,071	737	-	1,886	2,606	25,772	28,378	30,264
Taxes, licenses and fees	127	974	1,470	-	2,571	10,012	20,723	30,735	33,306
Bad debt and other expense	-	-	-	-	-	5,483	-	5,483	5,483
Telephone	1,192	3,203	2,027	-	6,422	7,853	136	7,989	14,411
Insurance	22	9,220	5,378	-	14,620	2,412	-	2,412	17,032
Totals	<u>\$ 273,030</u>	<u>733,633</u>	<u>296,456</u>	<u>4,999</u>	<u>1,308,118</u>	<u>180,941</u>	<u>114,868</u>	<u>295,809</u>	<u>1,603,927</u>

See accompanying notes and independent auditors' report.

OPERATION NIGHTWATCH
Statements of Cash Flows
Years ended December 31, 2022 (Audited) and 2021 (Unaudited)

	<u>2022</u> (Audited)	<u>2021</u> (Unaudited)
Cash flows from operating activities:		
Change in net assets	\$ 234,762	491,290
Adjustments to reconcile change in net assets to cash provided by (used in) operating activities:		
Depreciation	68,021	58,955
Loss on disposal of assets	238	5,483
(Increase) decrease in assets:		
Receivables	(260,489)	(858)
Prepaid expenses and other assets	(7,495)	13,198
Increase (decrease) in liabilities:		
Accounts payable	27,265	(17,647)
Accrued liabilities	(6,174)	16,192
Prepaid rents	289	34
Key and security deposits	<u>300</u>	<u>(150)</u>
Total adjustments	<u>(178,045)</u>	<u>75,207</u>
Net cash provided by (used in) operating activities	<u>56,717</u>	<u>566,497</u>
Cash flows from investing activities:		
Purchases of investments	(640)	(359)
Purchases of property and equipment	<u>(60,591)</u>	<u>(40,791)</u>
Net cash provided by (used in) investing activities	<u>(61,231)</u>	<u>(41,150)</u>
Net increase (decrease) in cash, cash equivalents and restricted cash	(4,514)	525,347
Cash, cash equivalents, and restricted cash at beginning of year	<u>1,188,584</u>	<u>663,237</u>
Cash, cash equivalents, and restricted cash at end of year	<u>\$ 1,184,070</u>	<u>1,188,584</u>
Reconciliation of cash, cash equivalents, and restricted cash:		
Cash and cash equivalents	\$ 1,172,531	1,176,931
Restricted cash - tenant deposits	<u>11,539</u>	<u>11,653</u>
Total cash, cash equivalents, and restricted cash in statements of cash flows	<u>\$ 1,184,070</u>	<u>1,188,584</u>

See accompanying notes and independent auditors' report.

OPERATION NIGHTWATCH
Notes to Financial Statements
Years ended December 31, 2022 (Audited) and 2021 (Unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Operation Nightwatch (the Organization) is a Washington not-for-profit organization incorporated in 1976, dedicated to serving the 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, 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 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.

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.

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.

These notes are an integral part of the financial statements.

OPERATION NIGHTWATCH
Notes to Financial Statements, continued
Years ended December 31, 2022 (Audited) and 2021 (Unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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 December 31, 2022 and 2021 are collectible. For long-term pledges receivable, management has recorded a present-value discount of \$59,188 and \$0, respectively, as of December 31, 2022 and 2021, calculated using a discount rate of 4.14%.

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, 2022 and 2021 was \$68,021 and \$58,955, 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 2022 or 2021.

Leases

The Organization leases office space, shelter space, and equipment as lessee. The Organization determines if an arrangement is a lease at inception. Prior to the adoption of FASB ASC 842, Leases, on January 1, 2022, base rent expense was recognized on a straight-line basis in accordance with FASB ASC 840, rather than in accordance with lease payment schedules, for purposes of recognizing a constant annual rental expense. Scheduled base rent increases are spread evenly over the term of the lease.

OPERATION NIGHTWATCH
Notes to Financial Statements, continued
Years ended December 31, 2022 (Audited) and 2021 (Unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

After the adoption of FASB ASC 842, Leases, on January 1, 2022, operating leases are included in right-of-use (ROU) lease assets, other current liabilities, and lease liabilities on the Organization's statements of financial position.

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. In 2022, there were four short-term leases in effect whose lease terms are either month-to-month or ending on or before December 31, 2023. The total future payments in 2023 expected under short-term lease arrangements totaled approximately \$8,250.

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 7,652 and 9,289 hours of time to various projects and programs during 2022 and 2021, respectively. 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 \$76,685 and \$76,216 for the years ended December 31, 2022 and 2021, respectively.

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.

OPERATION NIGHTWATCH
Notes to Financial Statements, continued
Years ended December 31, 2022 (Audited) and 2021 (Unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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 December 31, 2022 and 2021.

The Organization recognizes income tax related interest in interest expense and penalties in operating expenses. During the years ended December 31, 2022 and 2021, the Organization recognized no income tax related interest or penalties.

Adoption of New Accounting Pronouncements

The Organization has adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2020-07 – *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, as management believes the standard improves the usefulness and understandability of the Organization's financial reporting. Analysis of various provisions of this standard resulted in no changes to the way the Organization recognized contributed nonfinancial assets in their financial reporting, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis. The presentation and disclosure of the Organization's policies for their collections have been enhanced in accordance with the standard.

The Organization has adopted FASB Accounting Standards Codification (ASC) 842, *Leases*, to increase transparency and comparability among organizations by requiring the recognition of right-of-use (ROU) assets and lease liabilities on the balance sheet. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

OPERATION NIGHTWATCH
Notes to Financial Statements, continued
Years ended December 31, 2022 (Audited) and 2021 (Unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

The Organization adopted FASB ASC 842, *Leases*, effective January 1, 2022, and recognized and measured leases existing at, or entered into after January 1, 2022 (the beginning of the period of adoption) through a cumulative effect adjustment, with certain practical expedients available. Lease disclosures for the year ended December 31, 2021 are made under prior lease guidance in FASB ASC 840.

The Organization elected the available practical expedients to account for its existing capital leases and operating leases as finance leases and operating leases, respectively, under the new guidance, without reassessing (a) whether the contracts contain leases under the new standard, (b) whether classification of capital leases or operating leases would be different in accordance with the new guidance, or (c) whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in the new guidance at lease commencement.

There were no lease ROU assets or lease liabilities to record based on the leasing arrangements in place at January 1, 2022, and therefore no impact on net assets as of January 1, 2022. After the adoption of FASB ASC 842, *Leases*, on January 1, 2022, operating leases are required to be included in right-of-use (ROU) lease assets, other current liabilities, and lease liabilities on the Organization's statements of financial position.

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 November 13, 2023, which is the date the financial statements were available to be issued.

OPERATION NIGHTWATCH
Notes to Financial Statements, continued
Years ended December 31, 2022 (Audited) and 2021 (Unaudited)

2. LIQUIDITY

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

	<u>2022</u>	<u>2021</u>
Financial assets at year-end:		
Cash and cash equivalents	\$ 1,172,531	1,176,931
Investments	219,788	219,148
Grants and pledges receivable	315,617	55,128
Restricted cash - tenant deposits	<u>11,539</u>	<u>11,653</u>
Total	1,719,475	1,462,860
Less amounts not available for general expenditures within one year:		
Liquid net assets with donor restrictions	(536,063)	(277,499)
Add back amounts available for general expenditure in following year	315,617	54,000
Less: cash restricted for tenants	(11,539)	(11,653)
Investments with liquidity horizons greater than one year	<u>(113,226)</u>	<u>-</u>
Financial assets available for general expenditures within one year	<u>\$ 1,374,264</u>	<u>1,227,708</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 over \$1 million at December 31, 2022. Additionally, to help manage unanticipated liquidity needs, the Organization maintains certificates of deposit with maturity dates ranging from 9 to 24 months for a total of \$219,788 as of December 31, 2022, 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.

Three donor pledges totaling \$354,870 comprised 95% of the grants and pledges receivable balance as of December 31, 2022 and one donor pledge totaling \$54,000 comprised 99% of the grants and pledges receivable balance as of December 31, 2021.

During the year ended December 31, 2022, one donor contributed 12% of total revenue and support.

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 December 31, 2022 and 2021. 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.

These notes are an integral part of the financial statements.

OPERATION NIGHTWATCH
Notes to Financial Statements, continued
Years ended December 31, 2022 (Audited) and 2021 (Unaudited)

4. PLEDGES RECEIVABLE, continued

Pledges receivable at December 31 are expected to be realized as follows:

	<u>2022</u>	<u>2021</u>
In less than one year	\$ 220,535	55,128
In one to five years	26,400	-
Thereafter	<u>127,870</u>	<u>-</u>
	374,805	55,128
Less: Discount on future pledges	<u>(59,188)</u>	<u>-</u>
Pledges receivable, net	<u>\$ 315,617</u>	<u>55,128</u>

5. NET ASSETS WITH DONOR RESTRICTIONS

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

	<u>2022</u>	<u>2021</u>
Subject to expenditure for specified purpose:		
Capacity building and development	\$ 149,405	150,000
Shelter Staffing	25,000	-
Dispatch vehicles and capital purchases	40,862	70,000
Other	<u>5,179</u>	<u>3,499</u>
	<u>220,446</u>	<u>223,499</u>
Subject to the passage of time:		
Pledged donations for periods after December 31:	<u>315,617</u>	<u>54,000</u>
	<u>315,617</u>	<u>54,000</u>
	<u>\$ 536,063</u>	<u>277,499</u>

6. 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 total monthly rent payments of \$2,296. In March 2022, the Organization's previous office lease agreements were terminated early by the lessor due to fire damage rendering the office space unusable. 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. Total office rental expense, including in-kind donations, under these leases was \$56,294 and \$80,356 for the years ended December 31, 2022 and 2021. Office rental expense is included with office expense on the Statements of Functional Expenses.

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.

These notes are an integral part of the financial statements.

OPERATION NIGHTWATCH
Notes to Financial Statements, continued
Years ended December 31, 2022 (Audited) and 2021 (Unaudited)

6. LEASES, continued

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

The components of lease expense were as follows for the years ended December 31:

	2022	2021
Operating lease cost	\$ 4,062	-
Variable lease cost	65,905	28,520
In-kind lease cost	10,900	54,004
Short-term lease cost	57,095	32,518
	\$ 137,962	115,042

Other information related to leases was as follows for the years ended December 31:

	2022	2021
Risk Free Discount Rate Used	2.88%	N/A
Remaining lease term (months)	4.5 years	N/A
ROU Asset - Operating Leases	\$ 34,249	N/A
Supplemental Cash Flow Information:		
Operating cash used by operating leases	\$ 4,062	-

Future minimum lease payments under non-cancellable leases are as follows for years ending December 31:

2023	\$ 8,124
2024	8,124
2025	8,124
2026	8,124
2027	4,062
Thereafter	-
Total future minimum lease payments	36,558
Less: imputed interest	(2,309)
Total	\$ 34,249

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 \$8,544 and \$10,768 into the plan during the years 2022 and 2021, respectively.

These notes are an integral part of the financial statements.

OPERATION NIGHTWATCH

Notes to Financial Statements, continued

Years ended December 31, 2022 (Audited) and 2021 (Unaudited)

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 years ended December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Food	\$ 135,297	105,407
Socks and blankets	38,614	33,673
Other goods and supplies	9,800	4,412
Use of shelter space	6,400	-
Use of office space	<u>4,500</u>	<u>54,004</u>
	<u>\$ 194,611</u>	<u>197,496</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 84 and 97, in the years ended December 31, 2022 and 2021. The total number of meals served was 30,673 and 35,515 for the years ended December 31, 2022 and 2021, 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.

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.

In February 2022, a fire occurred in the office building where the Organization leases office space, which caused extensive damage to the building. This resulted in the early termination of the office lease agreement and the Organization entered into a new office lease agreement in March 2022 – see Note 5. While the Organization was able to recover equipment and some files from their former offices, certain archived files were lost to fire damage. The Organization received an insurance reimbursement for \$35,000 to help cover costs of recovery and relocation efforts, and the reimbursement was recorded to other income in the statement of activities. Management cannot estimate the future financial or organizational impacts the fire damage to files and archives may have on the Organization.

These notes are an integral part of the financial statements.

OPERATION NIGHTWATCH
Notes to Financial Statements, continued
Years ended December 31, 2022 (Audited) and 2021 (Unaudited)

10. IMPACTS OF COVID-19

On March 11, 2020, the World Health Organization characterized an outbreak of a novel strain of coronavirus (COVID-19) as a pandemic. It is anticipated that these impacts will continue for some time. In response to the pandemic, the Organization has modified some activities and moved others to teleconference. Future potential impacts may include further changes to availability of state and local government funding and future event and program cancellations or changes. The future effects and potential financial impacts of these events are unknown.