

OPERATION NIGHTWATCH
FINANCIAL STATEMENTS
DECEMBER 31, 2023 (UNAUDITED)
AND
DECEMBER 31, 2022 (AUDITED)

OPERATION NIGHTWATCH
Years ended December 31, 2023 (Unaudited) and 2022 (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, 2023, 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.

We are required to be independent of Operation Nightwatch and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our review.

Accountants' Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying 2023 financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Report on 2022 Financial Statements

The 2022 financial statements were audited by us, and we expressed an unmodified opinion on them in our report dated November 13, 2023. We have not performed any auditing procedures since that date.

Finney, Neill & Company, P.S.

Seattle, Washington
October 17, 2024

OPERATION NIGHTWATCH
Statements of Financial Position
December 31, 2023 (Unaudited) and 2022 (Audited)

	<u>2023</u> (Unaudited)	<u>2022</u> (Audited)
Assets		
Current assets:		
Cash and cash equivalents	\$ 568,950	1,172,531
Grants and pledges receivable, current	66,600	220,535
Short-term investments	521,645	106,562
Restricted cash - tenant deposits	14,687	11,539
Prepaid expenses and other assets	<u>53,084</u>	<u>57,997</u>
Total current assets	<u>1,224,966</u>	<u>1,569,164</u>
Long-term investments	-	113,226
Pledges receivable, net of current	96,518	95,082
Lease right-of-use asset	27,016	34,249
Property and equipment:		
Furniture and equipment	158,631	167,265
Land	160,000	160,000
Building and leasehold improvements	1,080,391	1,080,391
Less accumulated depreciation	<u>(837,424)</u>	<u>(785,923)</u>
Property and equipment, net	<u>561,598</u>	<u>621,733</u>
Total assets	<u>\$ 1,910,098</u>	<u>2,433,454</u>
 Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 31,379	27,625
Accrued liabilities	50,984	50,568
Prepaid rents	9,516	7,260
Lease liability, current	7,444	7,233
Key and security deposits	<u>2,500</u>	<u>2,300</u>
Total current liabilities	101,823	94,986
Lease liability, net of current portion	<u>19,572</u>	<u>27,016</u>
Total liabilities	<u>121,395</u>	<u>122,002</u>
Net assets:		
Without donor restrictions	1,473,994	1,775,389
With donor restrictions	<u>314,709</u>	<u>536,063</u>
Total net assets	<u>1,788,703</u>	<u>2,311,452</u>
Total liabilities and net assets	<u>\$ 1,910,098</u>	<u>2,433,454</u>

See accompanying notes and independent accountants' review report.

OPERATION NIGHTWATCH
Statement of Activities
Year ended December 31, 2023 (Unaudited)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support and revenues:			
Contributions	\$ 1,055,931	14,443	1,070,374
Grants and contracts	81,648	116,000	197,648
In-kind donations	342,214	-	342,214
Rental income	81,114	-	81,114
Interest income	17,635	-	17,635
Other income (expense)	(3,578)	-	(3,578)
Net assets released from restrictions	<u>351,797</u>	<u>(351,797)</u>	<u>-</u>
Total support and revenue	<u>1,926,761</u>	<u>(221,354)</u>	<u>1,705,407</u>
Expenses:			
Program services:			
Street ministry	306,130	-	306,130
Dispatch center	1,161,930	-	1,161,930
Senior housing	<u>298,454</u>	<u>-</u>	<u>298,454</u>
Total program services	<u>1,766,514</u>	<u>-</u>	<u>1,766,514</u>
Supporting services:			
Administrative and general	230,499	-	230,499
Fundraising	<u>231,143</u>	<u>-</u>	<u>231,143</u>
Total supporting services	<u>461,642</u>	<u>-</u>	<u>461,642</u>
Total expenses	<u>2,228,156</u>	<u>-</u>	<u>2,228,156</u>
Change in net assets	(301,395)	(221,354)	(522,749)
Net assets at beginning of year	<u>1,775,389</u>	<u>536,063</u>	<u>2,311,452</u>
Net assets at end of year	<u>\$ 1,473,994</u>	<u>314,709</u>	<u>1,788,703</u>

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

OPERATION NIGHTWATCH
Statement of Functional Expenses
Year ended December 31, 2023 (Unaudited)

	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	\$ 244,396	502,611	160,485	907,492	148,114	138,334	286,448	1,193,940
Shelter	-	125,986	-	125,986	-	-	-	125,986
Food and other	18,117	360,048	4,959	383,124	2,069	-	2,069	385,193
Depreciation	-	29,906	35,028	64,934	2,127	-	2,127	67,061
Utilities	448	31,688	28,045	60,181	728	-	728	60,909
Office expense	19,477	3,873	1,782	25,132	27,369	356	27,725	52,857
Meals and events	1,466	96	33	1,595	5,013	33,286	38,299	39,894
Repair and maintenance	2,899	54,988	56,158	114,045	7,403	-	7,403	121,448
Professional services	11,885	15,931	5,640	33,456	21,304	9,760	31,064	64,520
Bus tickets and transportation	1,789	24,382	142	26,313	90	81	171	26,484
Printing and postage	1,268	1,480	1,277	4,025	4,530	32,674	37,204	41,229
Taxes, licenses and fees	302	2,004	2,025	4,331	7,545	14,912	22,457	26,788
Telephone	353	1,092	924	2,369	1,021	18	1,039	3,408
Insurance	3,730	7,845	1,956	13,531	3,186	1,722	4,908	18,439
Totals	<u>\$ 306,130</u>	<u>1,161,930</u>	<u>298,454</u>	<u>1,766,514</u>	<u>230,499</u>	<u>231,143</u>	<u>461,642</u>	<u>2,228,156</u>

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

OPERATION NIGHTWATCH
Statements of Cash Flows
Years ended December 31, 2023 (Unaudited) and 2022 (Audited)

	<u>2023</u>	<u>2022</u>
	<u>(Unaudited)</u>	<u>(Audited)</u>
Cash flows from operating activities:		
Change in net assets	\$ (522,749)	234,762
Adjustments to reconcile change in net assets to cash provided by (used in) operating activities:		
Depreciation	67,061	68,021
Loss on disposal of assets	3,578	238
(Increase) decrease in assets:		
Receivables	152,499	(260,489)
Prepaid expenses and other assets	4,913	(7,495)
Increase (decrease) in liabilities:		
Accounts payable	3,754	27,265
Accrued liabilities	416	(6,174)
Prepaid rents	2,256	289
Key and security deposits	200	300
Total adjustments	<u>234,677</u>	<u>(178,045)</u>
Net cash provided by (used in) operating activities	<u>(288,072)</u>	<u>56,717</u>
Cash flows from investing activities:		
Sales (purchases) of investments	(301,857)	(640)
Purchases of property and equipment	(40,504)	(60,591)
Proceeds from sale of property and equipment	<u>30,000</u>	<u>-</u>
Net cash provided by (used in) investing activities	<u>(312,361)</u>	<u>(61,231)</u>
Net increase (decrease) in cash, cash equivalents and restricted cash	(600,433)	(4,514)
Cash, cash equivalents, and restricted cash at beginning of year	<u>1,184,070</u>	<u>1,188,584</u>
Cash, cash equivalents, and restricted cash at end of year	<u>\$ 583,637</u>	<u>1,184,070</u>
Reconciliation of cash, cash equivalents, and restricted cash:		
Cash and cash equivalents	\$ 568,950	1,172,531
Restricted cash - tenant deposits	<u>14,687</u>	<u>11,539</u>
Total cash, cash equivalents, and restricted cash in statements of cash flows	<u>\$ 583,637</u>	<u>1,184,070</u>

See accompanying notes and independent accountants' review report.

OPERATION NIGHTWATCH
Notes to Financial Statements
Years ended December 31, 2023 (Unaudited) and 2022 (Audited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Operation Nightwatch (the Organization) is a Washington not-for-profit organization incorporated in 1976, dedicated to serving the poor and homeless people in the Seattle community. The Organization provides a variety of services, including street ministry, emergency shelter and meals, low-income housing, and community education. The services offered are funded principally by contributions from individual donors, with the support of hundreds of volunteers each month.

The programs of the Organization are four-fold:

- *Street Ministry*
Bringing tangible and spiritual support in a variety of non-traditional settings: homeless camps, 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.

OPERATION NIGHTWATCH
Notes to Financial Statements, continued
Years ended December 31, 2023 (Unaudited) and 2022 (Audited)

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, 2023 and 2022 are collectible. For long-term pledges receivable, management has recorded a present-value discount of \$52,540 and \$59,188, respectively, as of December 31, 2023 and 2022, 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 \$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 years ended December 31, 2023 and 2022 was \$67,061 and \$68,021, 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 2023 or 2022.

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, 2023 (Unaudited) and 2022 (Audited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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 2023, there were two short-term leases in effect whose lease terms are either month-to-month or ending on or before December 31, 2024. The total future payments in 2024 expected under short-term lease arrangements totaled approximately \$6,000.

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 12,192 and 7,652 hours of time to various projects and programs during 2023 and 2022, 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 \$81,114 and \$76,685 for the years ended December 31, 2023 and 2022, 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, 2023 (Unaudited) and 2022 (Audited)

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, 2023 and 2022.

The Organization recognizes income tax related interest in interest expense and penalties in operating expenses. During the years ended December 31, 2023 and 2022, 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.

Adoption of New Accounting Pronouncements

On January 1, 2023, the Organization adopted Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. ASU 2016-13 replaces the incurred loss methodology with an expected loss methodology by introducing the Current Expected Credit Loss (CECL) model, which requires entities to measure credit losses based on historical experience, current conditions, and reasonable and supportable forecasts. The adoption of ASC 326 resulted in no material changes to the financial statements for the year ended December 31, 2023. The standard was adopted prospectively, and therefore had no impact on the financial data reported for the year ended December 31, 2022.

These notes are an integral part of the financial statements.

OPERATION NIGHTWATCH
Notes to Financial Statements, continued
Years ended December 31, 2023 (Unaudited) and 2022 (Audited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Date of Management's Review

Subsequent events have been evaluated through October 17, 2024, which is the date the financial statements were available to be issued.

2. LIQUIDITY

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

	<u>2023</u>	<u>2022</u>
Financial assets at year-end:		
Cash and cash equivalents	\$ 568,950	1,172,531
Investments	521,645	219,788
Grants and pledges receivable	163,118	315,617
Restricted cash - tenant deposits	<u>14,687</u>	<u>11,539</u>
Total	1,268,400	1,719,475
Less amounts not available for general expenditures within one year:		
Liquid net assets with donor restrictions	(314,709)	(536,063)
Add back amounts available for general expenditure in following year	66,600	220,535
Less: cash restricted for tenants	(14,687)	(11,539)
Investments with liquidity horizons greater than one year	<u>-</u>	<u>(113,226)</u>
Financial assets available for general expenditures within one year	<u>\$ 1,005,604</u>	<u>1,279,182</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 \$500 thousand at December 31, 2023. 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 \$521,645 as of December 31, 2023, which can be sold to help manage unanticipated liquidity needs.

3. CONCENTRATIONS

The Organization operates one property located in Seattle, Washington. Future operations could be affected by changes in economic or other conditions in that geographical area, by changes in federal and state low-income housing subsidies or the demand for such housing, or by zoning, building code or other regulatory restrictions.

Two donor pledges totaling \$215,658 comprised ~100% of the grants and pledges receivable balance as of December 31, 2023 and three donor pledges totaling \$354,780 comprised 95% of the grants and pledges receivable balance as of December 31, 2022.

These notes are an integral part of the financial statements.

OPERATION NIGHTWATCH
Notes to Financial Statements, continued
Years ended December 31, 2023 (Unaudited) and 2022 (Audited)

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, 2023 and 2022. 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.

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

	<u>2023</u>	<u>2022</u>
In less than one year	\$ 66,600	220,535
In one to five years	26,400	26,400
Thereafter	<u>122,658</u>	<u>127,870</u>
	215,658	374,805
Less: Discount on future pledges	<u>(52,540)</u>	<u>(59,188)</u>
Pledges receivable, net	<u>\$ 163,118</u>	<u>315,617</u>

5. NET ASSETS WITH DONOR RESTRICTIONS

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

	<u>2023</u>	<u>2022</u>
Subject to expenditure for specified purpose:		
Capacity building and development	\$ 77,721	149,405
Kitchen equipment	36,000	-
Shelter staffing	20,000	25,000
Dispatch vehicles and capital purchases	3,064	40,862
Other	<u>14,806</u>	<u>5,179</u>
	<u>151,591</u>	<u>220,446</u>
Subject to the passage of time:		
Pledged donations for periods after December 31:	<u>163,118</u>	<u>315,617</u>
	<u>163,118</u>	<u>315,617</u>
	<u>\$ 314,709</u>	<u>536,063</u>

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. Total office rental expense, including in-kind donations, under these leases was \$42,000 and \$56,294 for the years ended December 31, 2023 and 2022. Office rental expense is included with office expense on the Statements of Functional Expenses.

These notes are an integral part of the financial statements.

OPERATION NIGHTWATCH
Notes to Financial Statements, continued
Years ended December 31, 2023 (Unaudited) and 2022 (Audited)

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, 2024 and calls for monthly payments of \$1,200.

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:

	<u>2023</u>	<u>2022</u>
Operating lease cost	\$ 8,124	4,062
Variable lease cost	111,325	65,905
In-kind lease cost	-	10,900
Short-term lease cost	<u>57,095</u>	<u>57,095</u>
	<u>\$ 176,544</u>	<u>137,962</u>

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

	<u>2023</u>	<u>2022</u>
Risk Free Discount Rate Used	2.88%	2.88%
Remaining lease term (months)	3.5 years	4.5 years
ROU Asset - Operating Leases	\$ 27,016	34,249
Supplemental Cash Flow Information:		
Operating cash used by operating leases	\$ 8,124	4,062

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

2024	\$ 8,124
2025	8,124
2026	8,124
2027	4,062
Thereafter	<u>-</u>
Total future minimum lease payments	28,434
Less: imputed interest	<u>(1,418)</u>
Total	<u>\$ 27,016</u>

These notes are an integral part of the financial statements.

OPERATION NIGHTWATCH
Notes to Financial Statements, continued
Years ended December 31, 2023 (Unaudited) and 2022 (Audited)

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 \$5,244 and \$8,544 into the plan during the years 2023 and 2022, respectively.

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, 2023 and 2022:

	2023	2022
Food	\$ 229,713	135,297
Socks and blankets	108,468	38,614
Other goods and supplies	4,033	9,800
Use of shelter space	-	6,400
Use of office space	-	4,500
	\$ 342,214	194,611

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 158 and 84, in the years ended December 31, 2023 and 2022. The total number of meals served was 57,560 and 30,673 for the years ended December 31, 2023 and 2022, 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.

These notes are an integral part of the financial statements.

OPERATION NIGHTWATCH
Notes to Financial Statements, continued
Years ended December 31, 2023 (Unaudited) and 2022 (Audited)

9. COMMITMENTS AND CONTINGENCIES, continued

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 6. 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 during the year ended December 31, 2022.

10. SUBSEQUENT EVENTS

In March 2024, the Organization opened a women’s shelter with nine beds available.

In May 2024, the Organization’s contract with Bread of Life for space in a men’s shelter ended, resulting in a reduction of 45 beds that are available to Operation Nightwatch for men.

In July 2024, the Organization opened a free, volunteer-run medical clinic and hired professionals for the initial start-up structure.