

NEW BEGINNINGS

FINANCIAL REPORT

DECEMBER 31, 2017

C O N T E N T S

	Page
INDEPENDENT AUDITORS' REPORT	1 and 2
FINANCIAL STATEMENTS	
STATEMENTS OF FINANCIAL POSITION	3
STATEMENTS OF ACTIVITIES.....	4
STATEMENT OF FUNCTIONAL EXPENSES – 2017	5
STATEMENT OF FUNCTIONAL EXPENSES – 2016	6
STATEMENTS OF CASH FLOWS	7
NOTES TO FINANCIAL STATEMENTS	8 - 15
SUPPLEMENTARY REPORT IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	17 and 18

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
New Beginnings
Seattle, Washington

We have audited the accompanying financial statements of New Beginnings, which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

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; 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to an entity's preparation and fair presentation of the financial statements 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 the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of New Beginnings as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 23, 2018, on our consideration of New Beginnings' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering New Beginnings' internal control over financial reporting and compliance.

Peterson Sullivan LLP

April 23, 2018

NEW BEGINNINGS

STATEMENTS OF FINANCIAL POSITION

December 31, 2017 and 2016

ASSETS	<u>2017</u>	<u>2016</u>
Current Assets		
Cash	\$ 1,055,668	\$ 344,013
Restricted cash	20,000	20,000
Investments	1,593,940	426,416
Current portion of pledges receivables, net	140,629	3,259
Contracts receivable	207,073	179,615
Other receivables	10,921	10,418
Prepaid expenses	<u>75,448</u>	<u>64,587</u>
Total current assets	3,103,679	1,048,308
Restricted Cash, net of current portion	211,582	253,851
Pledges Receivable, net	120,954	
Property and Equipment, net	<u>1,817,511</u>	<u>1,988,257</u>
Total assets	<u>\$ 5,253,726</u>	<u>\$ 3,290,416</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 217,394	\$ 157,558
Deferred revenue	6,343	15,978
Current portion of long-term debt	<u>43,395</u>	<u>43,395</u>
Total current liabilities	267,132	216,931
Accrued Interest	214,486	200,852
Long-Term Debt, less current portion	<u>1,638,462</u>	<u>1,681,857</u>
Total liabilities	2,120,080	2,099,640
Net Assets		
Unrestricted	2,503,524	1,116,411
Temporarily restricted	<u>630,122</u>	<u>74,365</u>
Total net assets	<u>3,133,646</u>	<u>1,190,776</u>
Total liabilities and net assets	<u>\$ 5,253,726</u>	<u>\$ 3,290,416</u>

See Notes to Financial Statements

NEW BEGINNINGS

STATEMENTS OF ACTIVITIES

For the Years Ended December 31, 2017 and 2016

	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and Revenue						
Public support						
Contributions, net	\$ 789,219	\$ 654,239	\$ 1,443,458	\$ 745,771	\$ 75,500	\$ 821,271
United Way	68,750		68,750	72,500		72,500
Grants from government agencies	1,582,129		1,582,129	1,602,714		1,602,714
Special events	344,994		344,994	380,863	7,500	388,363
Special event expenses	(115,768)		(115,768)	(105,872)		(105,872)
Total public support	2,669,324	654,239	3,323,563	2,695,976	83,000	2,778,976
Revenue						
Gain on sale of shelter	1,488,602		1,488,602			
Program fees	4,423		4,423	24,842		24,842
Dividends and interest	43,146		43,146	12,607		12,607
Gain on investments	52,981		52,981	30,590		30,590
Miscellaneous income	240		240	236		236
Total revenue	1,589,392		1,589,392	68,275		68,275
Net assets released from restrictions						
Satisfaction of program restrictions	98,482	(98,482)		34,116	(34,116)	
Total support and revenue	4,357,198	555,757	4,912,955	2,798,367	48,884	2,847,251
Expenses						
Program services						
Shelter	188,974		188,974	680,568		680,568
Community advocacy	922,930		922,930	738,268		738,268
Social change	152,131		152,131	187,081		187,081
Transitional housing	191,890		191,890	658,332		658,332
HomeSafe	876,658		876,658	6,171		6,171
Total program services	2,332,583		2,332,583	2,270,420		2,270,420
Supporting services						
Management and general	189,517		189,517	183,485		183,485
Fundraising	447,985		447,985	422,611		422,611
Total supporting services	637,502		637,502	606,096		606,096
Total expenses	2,970,085		2,970,085	2,876,516		2,876,516
Change in net assets	1,387,113	555,757	1,942,870	(78,149)	48,884	(29,265)
Net Assets, beginning of year	1,116,411	74,365	1,190,776	1,194,560	25,481	1,220,041
Net Assets, end of year	<u>\$ 2,503,524</u>	<u>\$ 630,122</u>	<u>\$ 3,133,646</u>	<u>\$ 1,116,411</u>	<u>\$ 74,365</u>	<u>\$ 1,190,776</u>

See Notes to Financial Statements

NEW BEGINNINGS

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2017

	Program Services					Supporting Services				Grand Total
	Shelter	Community Advocacy	Social Change	Transitional Housing	HomeSafe	Total Program Services	Management and General	Fundraising	Total Supporting Services	
Salaries and wages	\$ 112,506	\$ 516,067	\$ 90,208	\$ 82,658	\$ 372,919	\$ 1,174,358	\$ 86,460	\$ 238,091	\$ 324,551	\$ 1,498,909
Employee benefits	21,386	68,377	10,263	15,846	65,620	181,492	9,727	29,996	39,723	221,215
Payroll taxes	10,236	45,799	7,999	7,111	32,383	103,528	7,169	20,425	27,594	131,122
Total salaries and benefits	144,128	630,243	108,470	105,615	470,922	1,459,378	103,356	288,512	391,868	1,851,246
Occupancy	15,194	104,120	17,887	24,629	99,577	261,407	19,181	37,164	56,345	317,752
Professional fees	8,091	34,807	6,778	7,720	25,916	83,312	50,471	25,609	76,080	159,392
Event costs								115,768	115,768	115,768
Special assistance to individuals	5,156	70,672		15,644	118,615	210,087				210,087
Transition costs	1,661	26,679			17,076	45,416				45,416
Supplies	3,562	3,377	7,151	2,135	13,894	30,119	780	2,373	3,153	33,272
Communications	3,751	11,365	1,518	4,343	17,252	38,229	1,750	4,517	6,267	44,496
Printing		488	726		732	1,946	1,094	39,527	40,621	42,567
Equipment, repairs, and maintenance	632	2,977	518	1,745	12,250	18,122	1,030	2,064	3,094	21,216
Liability insurance	1,509	5,669	1,020	978	4,095	13,271	2,469	2,028	4,497	17,768
Staff education/training	113	1,564	1,096	74	1,792	4,639	430	2,298	2,728	7,367
Interpreters	1,097	4,184				5,281				5,281
Local transportation	446	5,802	1,772	399	4,847	13,266	387	3,289	3,676	16,942
Taxes, permits, licenses, and service charges	193	29		256	855	1,333	420	19,557	19,977	21,310
Postage/shipping	113	248	257	113	133	864	603	7,378	7,981	8,845
Meeting expenses	299	717	158	59	620	1,853	2,037	784	2,821	4,674
Agency dues	182	3,874	494	115	3,696	8,361	1,362	1,007	2,369	10,730
Major donor cultivation								1,525	1,525	1,525
Uncollectible pledges							1,852		1,852	1,852
Employment ads		1,029	45		585	1,659				1,659
Advertising/marketing			1,015			1,015		5,007	5,007	6,022
Uncollectible THP program fees				489		489				489
Miscellaneous					8	8	167	26	193	201
Total expenses before depreciation	41,999	277,601	40,435	58,699	321,943	740,677	84,033	269,921	353,954	1,094,631
Depreciation	2,847	15,086	3,226	27,576	83,793	132,528	2,128	5,320	7,448	139,976
Total expenses	188,974	922,930	152,131	191,890	876,658	2,332,583	189,517	563,753	753,270	3,085,853
Food and beverages								(47,817)	(47,817)	(47,817)
Rent and facility costs								(14,804)	(14,804)	(14,804)
Entertainment and prizes								(27,050)	(27,050)	(27,050)
Other direct expenses								(26,097)	(26,097)	(26,097)
Total special event costs								(115,768)	(115,768)	(115,768)
Total expenses, less special event costs	\$ 188,974	\$ 922,930	\$ 152,131	\$ 191,890	\$ 876,658	\$ 2,332,583	\$ 189,517	\$ 447,985	\$ 637,502	\$ 2,970,085

See Notes to Financial Statements

NEW BEGINNINGS

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2016

	Program Services					Supporting Services			Grand Total	
	Shelter	Community Advocacy	Social Change	Transitional Housing	HomeSafe	Total Program Services	Management and General	Fundraising		Total Supporting Services
Salaries and wages	\$ 417,574	\$ 455,203	\$ 120,329	\$ 309,605	\$ 473	\$ 1,303,184	\$ 90,334	\$ 234,584	\$ 324,918	\$ 1,628,102
Employee benefits	55,757	43,510	10,844	36,111		146,222	8,606	19,677	28,283	174,505
Payroll taxes	40,008	42,554	11,109	28,187	43	121,901	7,661	20,483	28,144	150,045
Total salaries and benefits	513,339	541,267	142,282	373,903	516	1,571,307	106,601	274,744	381,345	1,952,652
Occupancy	45,733	93,547	19,505	90,520		249,305	17,454	34,771	52,225	301,530
Professional fees	20,545	28,253	6,122	19,621	5,644	80,185	43,982	28,945	72,927	153,112
Event costs								105,872	105,872	105,872
Special assistance to individuals	22,367	27,067		13,979		63,413				63,413
Supplies	28,578	2,438	7,947	12,268		51,231	796	4,477	5,273	56,504
Communications	10,065	7,570	1,573	17,567		36,775	1,676	4,776	6,452	43,227
Printing	755	901	391	853		2,900	206	29,659	29,865	32,765
Equipment, repairs, and maintenance	13,254	3,364	540	10,448		27,606	1,483	2,610	4,093	31,699
Liability insurance	5,630	5,213	1,031	3,647		15,521	2,240	2,061	4,301	19,822
Staff education/training	1,935	1,643	2,044	1,204		6,826	548	6,283	6,831	13,657
Interpreters	3,189	5,604		45		8,838				8,838
Local transportation	2,916	2,292	1,319	1,845	11	8,383	595	1,823	2,418	10,801
Taxes, permits, licenses, and service charges	515	11	184	1,157		1,867	1,589	10,852	12,441	14,308
Postage/shipping	267	285	162	232		946	544	5,700	6,244	7,190
Meeting expenses	681	601	151	493		1,926	1,767	610	2,377	4,303
Agency dues	2,492	2,246	427	1,544		6,709	1,565	683	2,248	8,957
Major donor cultivation								5,915	5,915	5,915
Board development										
Employment ads	174	659	7	160		1,000	15	404	419	1,419
Advertising/marketing								2,603	2,603	2,603
Uncollectible THP program fees				1,032		1,032				1,032
Miscellaneous	39	29	1	2		71	161	37	198	269
	159,135	181,723	41,404	176,617	5,655	564,534	74,621	248,081	322,702	887,236
Total expenses before depreciation	672,474	722,990	183,686	550,520	6,171	2,135,841	181,222	522,825	704,047	2,839,888
Depreciation	8,094	15,278	3,395	107,812		134,579	2,263	5,658	7,921	142,500
Total expenses	680,568	738,268	187,081	658,332	6,171	2,270,420	183,485	528,483	711,968	2,982,388
Food and beverages								(33,280)	(33,280)	(33,280)
Rent and facility costs								(20,508)	(20,508)	(20,508)
Entertainment and prizes								(14,007)	(14,007)	(14,007)
Other direct expenses								(38,077)	(38,077)	(38,077)
Total special event costs								(105,872)	(105,872)	(105,872)
Total expenses, less special event costs	\$ 680,568	\$ 738,268	\$ 187,081	\$ 658,332	\$ 6,171	\$ 2,270,420	\$ 183,485	\$ 422,611	\$ 606,096	\$ 2,876,516

See Notes to Financial Statements

NEW BEGINNINGS

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities		
Change in net assets	\$ 1,942,870	\$ (29,265)
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Gain on sale of shelter	(1,488,602)	
Depreciation	139,976	142,500
Donated investments	(89,166)	(28,015)
Loan forgiveness	(43,395)	(43,395)
Accrued interest on forgivable loans	13,634	13,636
Allowance and discount on receivables	35,671	
Unrealized and realized gain on investments	(52,981)	(30,590)
Changes in operating assets and liabilities		
Restricted cash	42,269	(5,913)
Pledges and other receivables	(294,498)	14,335
Contracts receivable	(27,458)	36,950
Prepaid expenses	(10,861)	2,068
Accounts payable and accrued expenses	59,836	(43,612)
Deferred revenue	(9,635)	(5,423)
Net cash flows from operating activities	217,660	23,276
Cash Flows from Investing Activities		
Property and equipment acquisitions	(69,981)	(23,574)
Proceeds from sale of shelter	1,589,353	
Loss (gain) on disposal of property and equipment		1,788
Proceeds from sales of investments	217,829	128,772
Purchases of investments	(1,243,206)	(12,808)
Net cash flows from investing activities	493,995	94,178
Net change in cash	711,655	117,454
Cash, beginning of year	344,013	226,559
Cash, end of year	\$ 1,055,668	\$ 344,013

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

Note 1. Statement of Purpose and Summary of Significant Accounting Policies

Statement of Purpose

The mission of New Beginnings is to empower survivors and mobilize community awareness and action to end domestic violence. New Beginnings provides crisis support, safety planning, advocacy, information and referrals to domestic violence survivors and their support systems through a 24-hour Help Line.

Survivors seeking in-person support are served by mobile advocates who can meet them in the community or at New Beginnings' office to provide support, legal advocacy, and children's services. Financial assistance is provided to survivors facing homelessness, and to support them in overcoming a variety of barriers to independence and self-determination. Support groups, short-term mental health counseling, and therapy referrals are also available to New Beginnings' participants.

Starting in April 2017, New Beginnings adopted a new, enhanced model for its housing services. The new Home Safe Program provides bridge housing for survivors and their children who are fleeing domestic violence for stays of up to six months in fully furnished apartments. While there, survivors receive the same array of services provided to Community Advocacy Program participants, plus housing placement support, financial planning services, and rental assistance. Services are designed to enable survivors to obtain safe, stable housing as quickly as possible, with supportive services continuing as needed once participants have moved to their new homes. Transition to this new housing model involved expenses related to staff restructuring, the purchase of cell phones and laptops for mobile advocacy, and preparation of our former shelter property prior to sale.

New Beginnings also provides education about domestic violence to the public, specialized training on domestic violence to professionals in the health, legal, faith, educational, and human service professions, and healthy relationships and prevention education to youth. Based in Seattle, Washington, New Beginnings primarily serves community members from the Seattle metro area.

New Beginnings is a Washington not-for-profit corporation.

Financial Statement Presentation

New Beginnings reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. New Beginnings has no permanently restricted net assets, so this class of net assets is not shown on the financial statements. Contributions and certain grants that are received are recorded as unrestricted or temporarily restricted support depending on the existence and/or nature of any donor restrictions.

Temporarily Restricted Net Assets

Temporarily restricted net assets consist of unexpended contributions restricted for particular purposes or time periods. Temporarily restricted net assets are transferred to unrestricted net assets as expenditures are incurred for the restricted purpose, or as time restrictions are met. Contributions that are received are recorded as unrestricted or temporarily restricted support depending on the existence and/or nature of any donor restrictions. Temporarily restricted net assets consist of the following at December 31:

	<u>2017</u>	<u>2016</u>
Direct assistance	\$ 21,653	\$ 43,740
Housing first	6,140	10,125
Teen prevention education	8,000	8,000
Community advocacy	5,000	
Time-restricted	261,583	7,500
Momentum	322,246	
Program supplies	5,500	5,000
	<u>\$ 630,122</u>	<u>\$ 74,365</u>

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimated amounts.

Cash and Restricted Cash

Cash consists of checking and money market accounts. On occasion, New Beginnings has cash balances in excess of federally insured limits.

Restricted cash consists of amounts maintained in a separate bank account as required by loan documents from the City of Seattle. Under this agreement, New Beginnings must segregate project operating funds and establish TH program operating reserves and TH program replacement reserves for structural elements and other capital items.

Fair Value Measurements

Fair value is a market-based measurement determined based on assumptions that market participants would use in pricing an asset or liability. There are three levels that prioritize the inputs used in measuring fair value as follows:

- Level 1: Observable market inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Observable market inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3: Unobservable inputs where there is little or no market data, which require the reporting entity to develop its own assumptions.

Property and Equipment

Property and equipment are recorded at cost when purchased and at estimated fair value when donated. Expenditures in excess of \$1,500 that significantly increase the estimated useful lives of assets are capitalized. All improvements and replacements of TH or shelter building components, flooring, and major appliances are capitalized, regardless of cost. Maintenance and repairs are expensed as incurred. Depreciation is recorded on the straight-line method over the estimated useful lives of the assets.

Support and Revenue

Contributions, which include unconditional promises to give (pledges), are recognized as revenue in the period the contribution commitment is received. Grant revenue is recognized when earned based on the grant terms. Deferred revenue represents grant revenue received in advance of being earned. Program fee revenue is recognized when earned as training sessions and workshops are completed. Special event revenue is recognized at the time of the event.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income Taxes

New Beginnings is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

Reclassifications

Certain amounts from the prior year have been reclassified to conform to the current year presentation. These reclassifications have no impact to the previously reported change in net assets.

Subsequent Events

New Beginnings has evaluated subsequent events through the date these financial statements were available to be issued, which was April 23, 2018.

Note 2. Investments

Investments consist primarily of mutual funds. Investments are stated at fair value based on quoted prices in active markets, such as the New York Stock Exchange. This valuation basis is considered Level 1 within the fair value hierarchy. Sales of investments are based on the specific identification method. Investments consist of the following at December 31:

	<u>2017</u>	<u>2016</u>
Government intermediate-term bond funds	\$ 325,028	\$ 96,086
Large growth funds	248,138	33,301
Foreign large growth funds	210,712	
Diversified emerging markets	121,542	23,257
Commodities broad basket	113,727	
Large blend equity funds	100,592	86,179
Government short-term bond funds	84,469	69,776
World bond funds	74,304	
Foreign large value funds	67,587	35,622
Bank loan funds	61,528	
Small value equity funds	49,093	32,543
World small/mid stock funds	38,259	
High yield bond funds	36,540	
Small blend equity funds	24,798	33,184
Equity investments	23,388	
Foreign small/mid value funds	14,235	16,468
	<u>\$ 1,593,940</u>	<u>\$ 426,416</u>

Note 3. Receivables

Contracts receivable consist of amounts due within one year from governmental agencies. Contracts receivable from three governmental agencies represent 92% and 86% of contracts receivable at December 31, 2017 and 2016, respectively. No allowance was determined necessary for contracts receivable as of December 31, 2017 or 2016.

Pledges receivable consist of unconditional promises to give. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are initially recorded at fair value, which is measured as the present value of the future cash flows. The discount on those amounts is computed using a risk-adjusted interest rate, which is applicable to the year in which the promise was received. At December 31, 2016, all pledges and other receivables are due within one year, so no discount on unconditional promises was deducted. New Beginnings maintains an allowance for potential losses based on management's periodic review of New Beginnings' experience related to pledges and other collections. Receivables written off are charged against the allowance. Pledges receivable are summarized as follows at December 31:

	2017	2016
Amounts due in:		
Less than one year	\$ 156,254	\$ 3,259
One to five years	141,000	
	<u>297,254</u>	<u>3,259</u>
Pledges receivable, gross		
Less: unamortized discount (2%)	(5,946)	
Allowance for uncollectible contributions	(29,725)	
	<u>261,583</u>	<u>3,259</u>
Pledges receivable, net		

These amounts are included in the statements of financial position as follows for the years ended December 31:

	2017	2016
Pledges receivable – current portion	\$ 140,629	\$ 3,259
Pledges receivable – long-term portion	120,954	
	<u>261,583</u>	<u>3,259</u>

Note 4. Property and Equipment

Property and equipment consists of the following as of December 31:

	2017			
	Shelter	Transitional Housing	Greenwood	Total
Land	\$ -	\$ 247,983	\$ -	\$ 247,983
Buildings and improvements		2,989,849	31,717	3,021,566
Furniture and equipment		133,598	334,303	467,901
Vehicles		36,100	29,324	65,424
		<u>3,407,530</u>	<u>395,344</u>	<u>3,802,874</u>
Less: accumulated depreciation		(1,648,499)	(336,864)	(1,985,363)
Net property and equipment	<u>\$ -</u>	<u>\$ 1,759,031</u>	<u>\$ 58,480</u>	<u>\$ 1,817,511</u>

	2016			
	Shelter	Transitional Housing	Greenwood	Total
Land	\$ 45,000	\$ 247,983	\$ -	\$ 292,983
Buildings and improvements	667,082	2,924,416	31,717	3,623,215
Furniture and equipment	110,106	132,680	330,673	573,459
Vehicles	29,324	36,100		65,424
	851,512	3,341,179	362,390	4,555,081
Less: accumulated depreciation	(747,915)	(1,538,193)	(280,716)	(2,566,824)
Net property and equipment	<u>\$ 103,597</u>	<u>\$ 1,802,986</u>	<u>\$ 81,674</u>	<u>\$ 1,988,257</u>

Note 5. Long-Term Debt

Notes payable consist of the following at December 31:

	2017	2016
1. Note payable to the City of Seattle, 1% interest, due March 2037. Interest is accrued the first 20 years and forgiven during the last 20 years, with the entire principal forgiven at maturity if the TH program continues. The note is secured by the TH land and building.	\$ 397,258	\$ 417,954
2. Note payable to the City of Seattle, 1% interest, due September 2059. Interest is accrued during the first 25 years and forgiven during the last 25 years. New Beginnings also has the option between 30-60 days of the maturity date to extend the loan 25 years during which 4% of the loan and interest is forgiven each year. The note is secured by the TH land and building.	535,537	535,537
3. Note payable to the State of Washington Department of Community, Trade, and Economic Development, without interest, due June 2050. Entire principal balance is forgiven at maturity if the TH program continues. The note is secured by the TH land and building.	749,062	771,761
	1,681,857	1,725,252
Less: current portion	(43,395)	(43,395)
	<u>\$ 1,638,462</u>	<u>\$ 1,681,857</u>

Interest expense for both years ended December 31, 2017 and 2016, was \$13,634.

The loans were received for New Beginnings' TH project, which was completed in 1997, with additional amounts received in 2009 and 2010 for a remodel. New Beginnings will not have to pay back these loans provided that New Beginnings complies with the terms of use of the project. For loans 1 and 3, New Beginnings is currently recording revenue from loan forgiveness on a straight-line basis based on its continuing compliance with the loan terms each year until the loans are completely forgiven. During both 2017 and 2016, loan forgiveness was recorded into grant revenue in the amount of \$43,395. The cumulative amount of grant revenue that has been recorded under these loan agreements since 1997 through December 31, 2017, is \$786,778. Forgiveness on loan 2 will begin in 2034; therefore, no revenue has been recorded related to this loan in the current year.

Note 6. Leases

New Beginnings has three operating leases: one for its business office, one for its conference/meeting location, and one for its community advocacy office. The business office and conference/meeting room leases expire on December 31, 2020, and January 31, 2021, respectively, and both require New Beginnings to pay its share of property taxes and other operating expenses. The community advocacy office lease expires on December 31, 2018.

Future minimum payments required for all leases are as follows for the years ending December 31:

2018	\$	136,213
2019		85,050
2020		87,603
2021		3,195
		<u>312,061</u>
	\$	<u>312,061</u>

Total rent expense, including allocated property taxes and other operating expenses, for the years ended December 31, 2017 and 2016, was \$186,317 and \$182,625, respectively.

Note 7. Unrestricted Net Assets

Unrestricted net assets consist of the following at December 31:

	<u>2017</u>	<u>2016</u>
Board-designated		
Operational reserve	\$ 1,908,395	\$ 679,332
Transitional replacement reserve	164,756	207,134
Shelter replacement reserve	59,949	80,303
Transitional operational reserve	66,825	66,717
Technology replacement reserve	2,640	2,640
	<u>2,202,565</u>	<u>1,036,126</u>
Undesignated	<u>300,959</u>	<u>80,285</u>
	<u>\$ 2,503,524</u>	<u>\$ 1,116,411</u>

Note 8. Revenue Concentrations

Grants from three (City of Seattle DHHS, State of Washington DSHS, and King County) and two governmental agencies (City of Seattle DHHS and State of Washington DSHS) represented 95% and 79% of grants from government agencies in 2017 and 2016, respectively. The City of Seattle DHHS funds the following services: emergency shelter (funded through the city's general funds and the Federal Emergency Shelter Grant Program) and community advocacy (funded through the city's general funds). In addition, the City of Seattle, on behalf of the regional Continuum of Care, contracted for Transitional Housing from January 1, 2017, to March 31, 2017, and Rapid Re-Housing from May 1, 2017, to December 31, 2017. In both cases, the City of Seattle acted as a pass-through for Federal HUD Supportive Housing Program funds.

Contributions from one individual represented 12% of total cash contributions for 2017. There were no contribution concentrations for 2016.

New Beginnings received contributions of \$76,275 and \$55,817 from the members of New Beginnings' Board of Directors during the years ended December 31, 2017 and 2016, respectively.

Note 9. Donated Assets and Services

Donated assets are reflected as contributions in the accompanying statements of activities at their estimated fair values at date of receipt. Donated services are only recorded in the financial statements when appropriate accounting criteria for recognition is met. The following items were included in revenue and expenses for the years ended December 31:

	2017	2016
Supplies	\$ 11,080	\$ 18,951
Technology		1,090
Professional fees		2,001
	<u>\$ 11,080</u>	<u>\$ 22,042</u>

Note 10. Pension Plan

New Beginnings has 403(b) and SEP-IRA plans. Employer contributions made for eligible employees totaled \$57,939 in 2017. No employer contributions were made in 2016.

Note 11. Notes Payable – Line of Credit

New Beginnings had a \$100,000 unsecured line of credit from a bank that matured on September 1, 2017, and was not renewed subsequent to maturity. There was no balance on the line of credit at December 31, 2017 or 2016.

S U P P L E M E N T A R Y R E P O R T
I N A C C O R D A N C E W I T H
G O V E R N M E N T A U D I T I N G S T A N D A R D S

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
New Beginnings
Seattle, Washington

We have audited, in accordance with the auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of New Beginnings, which comprise the statement of financial position as of December 31, 2017, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 23, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered New Beginnings' internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of New Beginnings' internal control. Accordingly, we do not express an opinion on the effectiveness of New Beginnings' internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether New Beginnings' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the New Beginnings' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the New Beginnings' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Peterson Sullivan LLP

April 23, 2018