

NEW BEGINNINGS

FINANCIAL REPORT

DECEMBER 31, 2018

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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, 2018 and 2017, 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, 2018 and 2017, 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 22, 2019, 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 22, 2019

NEW BEGINNINGS

STATEMENTS OF FINANCIAL POSITION

December 31, 2018 and 2017

ASSETS	<u>2018</u>	<u>2017</u>
Current Assets		
Cash	\$ 1,047,229	\$ 1,055,668
Restricted cash	10,000	10,000
Investments	1,512,352	1,593,940
Current portion of contributions receivable, net	451,418	140,629
Contracts receivable	212,972	207,073
Other receivables	9,528	10,921
Prepaid expenses	<u>80,575</u>	<u>75,448</u>
Total current assets	3,324,074	3,093,679
Restricted Cash, net of current portion	221,457	221,582
Contributions Receivable, net	134,089	120,954
Property and Equipment, net	<u>1,859,686</u>	<u>1,817,511</u>
Total assets	<u>\$ 5,539,306</u>	<u>\$ 5,253,726</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 277,910	\$ 217,394
Deferred revenue	1,960	6,343
Current portion of long-term debt	<u>43,395</u>	<u>43,395</u>
Total current liabilities	323,265	267,132
Accrued Interest	228,119	214,486
Long-Term Debt, net of current portion	<u>1,595,067</u>	<u>1,638,462</u>
Total liabilities	2,146,451	2,120,080
Net Assets		
Without donor restrictions	2,365,784	2,503,524
With donor restrictions	<u>1,027,071</u>	<u>630,122</u>
Total net assets	<u>3,392,855</u>	<u>3,133,646</u>
Total liabilities and net assets	<u>\$ 5,539,306</u>	<u>\$ 5,253,726</u>

See Notes to Financial Statements

NEW BEGINNINGS

STATEMENTS OF ACTIVITIES

For the Years Ended December 31, 2018 and 2017

	2018			2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue						
Public support						
Contributions, net	\$ 644,869	\$ 905,666	\$ 1,550,535	\$ 789,219	\$ 654,239	\$ 1,443,458
United Way	65,000		65,000	68,750		68,750
Grants from government agencies	1,926,856		1,926,856	1,582,129		1,582,129
Special events	408,349	5,000	413,349	344,994		344,994
Special event expenses	(131,052)		(131,052)	(115,768)		(115,768)
Total public support	2,914,022	910,666	3,824,688	2,669,324	654,239	3,323,563
Revenue						
Gain (loss) on sale of assets	(2,084)		(2,084)	1,488,602		1,488,602
Program fees	3,928		3,928	4,423		4,423
Dividends and interest	64,198		64,198	43,146		43,146
Gain (loss) on investments	(141,225)		(141,225)	52,981		52,981
Miscellaneous income				240		240
Total revenue	(75,183)		(75,183)	1,589,392		1,589,392
Net assets released from restrictions						
Satisfaction of program restrictions	513,717	(513,717)		98,482	(98,482)	
Total support and revenue	3,352,556	396,949	3,749,505	4,357,198	555,757	4,912,955
Expenses						
Program services						
Shelter				188,974		188,974
Community advocacy	1,170,669		1,170,669	922,930		922,930
Social change	168,590		168,590	152,131		152,131
Transitional housing				191,890		191,890
HomeSafe	1,485,879		1,485,879	876,658		876,658
Total program services	2,825,138		2,825,138	2,332,583		2,332,583
Supporting services						
Management and general	196,648		196,648	189,517		189,517
Fundraising	468,510		468,510	447,985		447,985
Total supporting services	665,158		665,158	637,502		637,502
Total expenses	3,490,296		3,490,296	2,970,085		2,970,085
Change in net assets	(137,740)	396,949	259,209	1,387,113	555,757	1,942,870
Net Assets, beginning of year	2,503,524	630,122	3,133,646	1,116,411	74,365	1,190,776
Net Assets, end of year	<u>\$ 2,365,784</u>	<u>\$ 1,027,071</u>	<u>\$ 3,392,855</u>	<u>\$ 2,503,524</u>	<u>\$ 630,122</u>	<u>\$ 3,133,646</u>

See Notes to Financial Statements

NEW BEGINNINGS

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2018

	Program Services				Supporting Services			Grand Total
	Community Advocacy	Social Change	Home Safe	Total Program Services	Management and General	Fundraising	Total Supporting Services	
Salaries and wages	\$ 694,441	\$ 101,830	\$ 564,471	\$ 1,360,742	\$ 78,733	\$ 263,532	\$ 342,265	\$ 1,703,007
Employee benefits	95,399	12,021	83,480	190,900	8,306	33,210	41,516	232,416
Payroll taxes	64,737	9,381	51,468	125,586	6,759	22,947	29,706	155,292
Total salaries and benefits	854,577	123,232	699,419	1,677,228	93,798	319,689	413,487	2,090,715
Special assistance to individuals	100,255		305,193	405,448				405,448
Occupancy	113,171	19,093	124,100	256,364	16,129	38,691	54,820	311,184
Professional fees	26,571	6,554	151,672	184,797	69,166	24,122	93,288	278,085
Event costs						131,052	131,052	131,052
Communications	15,184	1,991	24,817	41,992	1,777	5,584	7,361	49,353
Equipment, repairs, and maintenance	5,666	1,143	24,346	31,155	831	1,795	2,626	33,781
Printing	243	1,263	252	1,758		27,324	27,324	29,082
Taxes, permits, licenses, and service charges	9		1,034	1,043	317	24,953	25,270	26,313
Supplies	3,531	7,904	9,553	20,988	797	2,895	3,692	24,680
Local transportation	8,975	894	12,168	22,037	736	1,554	2,290	24,327
Liability insurance	6,843	921	5,837	13,601	1,556	1,845	3,401	17,002
Interpreters	10,604		3,971	14,575				14,575
Agency dues	3,953	484	4,044	8,481	1,421	935	2,356	10,837
Staff education/training	3,007	415	4,883	8,305	897	1,433	2,330	10,635
Postage/shipping	181	555	172	908	346	8,238	8,584	9,492
Bad debt					5,000		5,000	5,000
Meeting expenses	1,147	92	693	1,932	1,886	336	2,222	4,154
Advertising/marketing		1,441		1,441		1,674	1,674	3,115
Major donor cultivation						1,803	1,803	1,803
Miscellaneous	210		723	933	436	713	1,149	2,082
	<u>299,550</u>	<u>42,750</u>	<u>673,458</u>	<u>1,015,758</u>	<u>101,295</u>	<u>274,947</u>	<u>376,242</u>	<u>1,392,000</u>
Total expenses before depreciation	1,154,127	165,982	1,372,877	2,692,986	195,093	594,636	789,729	3,482,715
Depreciation	16,542	2,608	113,002	132,152	1,555	4,926	6,481	138,633
Total expenses	1,170,669	168,590	1,485,879	2,825,138	196,648	599,562	796,210	3,621,348
Food and beverages						(20,724)	(20,724)	(20,724)
Rent and facility costs						(45,394)	(45,394)	(45,394)
Entertainment and prizes						(33,639)	(33,639)	(33,639)
Other direct expenses						(31,295)	(31,295)	(31,295)
Total special event costs						(131,052)	(131,052)	(131,052)
Total expenses, less special event costs	\$ 1,170,669	\$ 168,590	\$ 1,485,879	\$ 2,825,138	\$ 196,648	\$ 468,510	\$ 665,158	\$ 3,490,296

See Notes to Financial Statements

NEW BEGINNINGS

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2017

	Program Services					Total Program Services	Supporting Services			Grand Total
	Shelter	Community Advocacy	Social Change	Transitional Housing	Home Safe		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
Advertising/marketing			1,015			1,015		5,007	5,007	6,022
Uncollectible THP program fees				489		489				489
Miscellaneous		1,029	45		593	1,667	167	26	193	1,860
	41,999	277,601	40,435	58,699	321,943	740,677	84,033	269,921	353,954	1,094,631
Total expenses before depreciation	186,127	907,844	148,905	164,314	792,865	2,200,055	187,389	558,433	745,822	2,945,877
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

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities		
Change in net assets	\$ 259,209	\$ 1,942,870
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Gain on sale of shelter		(1,488,602)
Loss on disposal of property and equipment	2,084	
Depreciation	138,633	139,976
Loan forgiveness	(43,395)	(43,395)
Accrued interest on forgivable loans	13,634	13,634
Allowance and discount on receivables		35,671
Unrealized and realized loss (gain) on investments	141,225	(52,981)
Changes in operating assets and liabilities		
Restricted cash	125	42,269
Contributions and other receivables	(322,531)	(294,498)
Contracts receivable	(5,899)	(27,458)
Prepaid expenses	(5,127)	(10,861)
Accounts payable and accrued expenses	60,516	59,836
Deferred revenue	(4,383)	(9,635)
	234,091	306,826
Net cash flows from operating activities		
Cash Flows from Investing Activities		
Property and equipment acquisitions	(182,892)	(69,981)
Proceeds from sale of shelter		1,589,353
Proceeds from sales of investments	38,854	128,663
Purchases of investments	(98,492)	(1,243,206)
	(242,530)	404,829
Net cash flows from investing activities		
Net change in cash	(8,439)	711,655
Cash, beginning of year	1,055,668	344,013
	1,047,229	1,055,668
Cash, end of year	\$ 1,047,229	\$ 1,055,668

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 as part of its Community Advocacy Program.

Formerly known as the Transitional Housing ("TH") program, the Home Safe Program provides interim housing for survivors and their children who are fleeing domestic violence for stays of up to six months in fully furnished apartments. As part of this program, 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.

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 two classes of net assets: without donor restrictions and with donor restrictions. Contributions and certain grants that are received are recorded depending on the existence and/or nature of any donor restrictions.

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/Home Safe program operating reserves and TH/Home Safe program replacement reserves for structural elements and other capital items. New Beginnings is permitted to spend \$10,000 out of these reserve funds annually for the TH/Home Safe program without prior city approval of expenditures. These amounts are classified as current on the statements of financial position.

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.

Net Assets with Donor Restrictions

Net assets with donor restrictions consist of unexpended contributions restricted for particular purposes or time periods. Net assets with donor restrictions are transferred to net assets without donor restrictions as expenditures are incurred for the restricted purpose or as time restrictions are met. Contributions that are received are recorded depending on the existence and/or nature of any donor restrictions. Net assets with donor restrictions consist of the following at December 31:

	<u>2018</u>	<u>2017</u>
Gates Foundation - Family Advocate and Michigan State University research	\$ 521,345	\$ -
Momentum (Home Safe)	320,437	322,246
Time-restricted	163,800	261,583
Direct assistance	10,636	21,653
Teen prevention education	9,353	8,000
Housing First		6,140
Community advocacy		5,000
Program supplies	1,500	5,500
	<u>\$ 1,027,071</u>	<u>\$ 630,122</u>

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/Home Safe 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. Government 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. The direct allocation method has been used whenever possible. Certain costs have been indirectly allocated among the programs and supporting services benefited. Salaries and wages, benefits, and payroll taxes have been directly allocated according to timesheets; exceptions to this method were related to the Executive Director, Administrative Director, Accounting Director, and Technology Specialist, which were allocated based on estimated time and effort to various programs and activities. Certain office expenses, including information technology and professional liability insurance, were allocated according to the agency personnel full-time equivalent spread. Occupancy expenses, property insurance, and depreciation were allocated according to each physical site's personnel full-time equivalent spread.

Income Taxes

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

Recent Accounting Pronouncement Adopted

During the year ended December 31, 2018, New Beginnings adopted the provisions of Accounting Standards Update ("ASU") No. 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classifications, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. New Beginnings has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented, except for the liquidity and availability of resources note (see Note 2).

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 22, 2019.

Note 2. Liquidity and Availability of Resources

New Beginnings regularly monitors liquidity required to meet its operating needs and other contractual commitments. Financial assets in excess of daily cash requirements are invested in a money market account and other short-term investments.

The following table reflects New Beginnings' financial assets as of December 31, 2018, reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date because of contractual restrictions or internal board designations. Amounts not available include a board-designated operating reserve fund, requiring New Beginnings to maintain a liquid asset reserve of approximately four to six months of its annual operating expenses, and other board-designated reserve funds. The Executive Director is permitted to draw up to \$50,000 from the board-designated operating reserve for short-term (30 days or less) cash flow needs. In the event the need arises to utilize the board-designated funds for liquidity purposes, the reserves could be drawn upon through board resolution. Amounts not available to meet general expenditures within one year also include net assets with donor restrictions for purposes that are not directly associated with day-to-day operations and/or programs operated by New Beginnings.

Financial assets at year-end	
Cash	\$ 1,278,686
Investments	1,512,352
Receivables	<u>808,007</u>
Total financial assets	3,599,045
Cash restricted by building loan agreement	(231,457)
Donor-restricted for time or purpose	(1,005,581)
Board-designated operating reserve fund	(1,908,395)
Other board-designated reserve funds (see Note 8)	<u>(285,720)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 167,892</u>

New Beginnings plans to cover program and general operating expenses for 2019 through monthly cost-reimbursements from government agencies, collections of cash receipts for pledged contributions, and ongoing fundraising efforts that include two fundraising events.

Note 3. 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:

	2018	2017
Government intermediate-term bond funds	\$ 350,612	\$ 325,028
Large growth funds	222,064	248,138
Foreign large growth funds	198,921	210,712
Diversified emerging markets	103,561	121,542
Commodities broad basket	97,679	113,727
Large blend equity funds	92,089	100,592
Government short-term bond funds	85,056	84,469
World bond funds	73,463	74,304
Bank loan funds	61,715	61,528
Foreign large blend funds	57,136	67,587
Small value equity funds	43,135	49,093
World small/mid stock funds	33,678	38,259
High yield bond funds	30,366	36,540
Equity investments	30,039	23,388
Small blend equity funds	21,922	24,798
Foreign small/mid value funds	10,916	14,235
Total investments	<u>\$ 1,512,352</u>	<u>\$ 1,593,940</u>

Note 4. Receivables

Contracts receivable consist of amounts due within one year from governmental agencies. Contracts receivable from two and three governmental agencies represent 76% and 92% of contracts receivable at December 31, 2018 and 2017, respectively. No allowance was determined necessary for contracts receivable as of December 31, 2018 or 2017.

Contributions receivable include 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. New Beginnings maintains an allowance for potential losses based on management's periodic review of New Beginnings' experience related to pledges and other collections. Contributions receivable from one organization represents 56% of total receivables at December 31, 2018. There were no such concentrations as of December 31, 2017.

Receivables written off are charged against the allowance. Pledges receivable are summarized as follows at December 31:

	2018	2017
Amounts due in:		
Less than one year	\$ 465,343	\$ 156,254
One to five years	149,889	141,000
Contributions receivable, gross	615,232	297,254
Less: unamortized discount (2%)		(5,946)
Allowance for uncollectible contributions	(29,725)	(29,725)
Contributions receivable, net	<u>\$ 585,507</u>	<u>\$ 261,583</u>

These amounts are included in the statements of financial position as follows at December 31:

	2018	2017
Pledges receivable – current portion	\$ 451,418	\$ 140,629
Pledges receivable – long-term portion	134,089	120,954
	<u>\$ 585,507</u>	<u>\$ 261,583</u>

Note 5. Property and Equipment

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

	2018		
	Transitional Housing	Greenwood	Total
Land	\$ 247,983	\$ -	\$ 247,983
Buildings and improvements	3,132,855	31,714	3,164,569
Furniture and equipment	149,847	302,988	452,835
Vehicles	36,100	29,324	65,424
	<u>3,566,785</u>	<u>364,026</u>	<u>3,930,811</u>
Less: accumulated depreciation	(1,750,918)	(320,207)	(2,071,125)
Net property and equipment	<u>\$ 1,815,867</u>	<u>\$ 43,819</u>	<u>\$ 1,859,686</u>
	2017		
	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>\$ 1,759,031</u>	<u>\$ 58,480</u>	<u>\$ 1,817,511</u>

Note 6. Long-Term Debt

Notes payable consist of the following at December 31:

	<u>2018</u>	<u>2017</u>
1. Note payable to the City of Seattle, 1% interest, due in 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/Home Safe program continues.	\$ 376,562	\$ 397,258
2. Note payable to the City of Seattle, 1% interest, due in September 2059. Interest is accrued during the first 25 years and forgiven during the last 25 years. New Beginnings also has the option from 30 to 60 days of the maturity date to extend the loan by 25 years during which 4% of the loan and interest is forgiven each year.	535,537	535,537
3. Note payable to the State of Washington Department of Community, Trade, and Economic Development, without interest, due in June 2050. Entire principal balance is forgiven at maturity if the TH/Home Safe program continues.	<u>726,363</u>	<u>749,062</u>
	1,638,462	1,681,857
Less: current portion	<u>(43,395)</u>	<u>(43,395)</u>
	<u>\$ 1,595,067</u>	<u>\$ 1,638,462</u>

All notes are secured by the related Transitional Housing land and building, with a net carrying value of \$1,759,083 as of December 31, 2018.

Interest expense for both years ended December 31, 2018 and 2017, was \$13,634. There was no interest paid in cash during 2018 or 2017.

The loans were received for New Beginnings' TH/Home Safe 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 2018 and 2017, 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, 2018, is \$830,172. Forgiveness on loan 2 will begin in 2034; therefore, no revenue has been recorded related to this loan in the current year.

Note 7. 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, 2021.

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

2019	\$	152,082
2020		154,635
2021		70,227
		<u>376,944</u>
	\$	<u>376,944</u>

Total rent expense, including allocated property taxes and other operating expenses, for the years ended December 31, 2018 and 2017, was \$194,627 and \$186,317, respectively.

Note 8. Net Assets without Donor Restrictions

Net assets without donor restrictions consist of the following at December 31:

	<u>2018</u>	<u>2017</u>
Board-designated		
Operational reserve	\$ 1,908,395	\$ 1,908,395
Transitional replacement reserve	164,631	164,756
Transitional operational reserve	66,825	66,825
Shelter replacement reserve	51,624	59,949
Technology replacement reserve	2,640	2,640
Total board-designated	<u>2,194,115</u>	<u>2,202,565</u>
Undesignated	<u>171,669</u>	<u>300,959</u>
	<u>\$ 2,365,784</u>	<u>\$ 2,503,524</u>

Note 9. Revenue Concentrations

Contracts from three (City of Seattle HSD, State of Washington DSHS, and King County) and two governmental agencies (City of Seattle HSD and State of Washington DSHS) represented 96% and 95% of revenue derived from contracts with government agencies in 2018 and 2017, respectively. The City of Seattle HSD funds Home Safe bridge housing and community advocacy services through the city's general funds. In addition, the City of Seattle, on behalf of the regional Continuum of Care, was contracted for Rapid Re-Housing from May 1, 2017, through April 30, 2019. In both cases, the City of Seattle acted as a pass-through for Federal HUD Supportive Housing Program funds.

Revenue from one organization and one individual represented 43% and 12% of total grant and contribution revenue for 2018 and 2017, respectively.

New Beginnings received contributions of \$56,925 and \$76,275 from the members of New Beginnings' Board of Directors during the years ended December 31, 2018 and 2017, respectively.

Note 10. Pension Plan

New Beginnings has 403(b) and SEP-IRA plans. Employer contributions made for eligible employees totaled \$67,442 and \$57,939 in 2018 and 2017, respectively.

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, 2018, 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 22, 2019.

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 organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Peterson Sullivan LLP

April 22, 2019