

SOLID GROUND WASHINGTON

CONSOLIDATED FINANCIAL STATEMENTS
With Independent Auditor's Report

YEARS ENDED DECEMBER 31, 2018 AND 2017

UNIFORM GUIDANCE SUPPLEMENTARY FINANCIAL REPORTS
YEAR ENDED DECEMBER 31, 2018



SOLID GROUND WASHINGTON
CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT	2
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION December 31, 2018 and 2017	4
CONSOLIDATED STATEMENTS OF ACTIVITY Years ended December 31, 2018 and 2017	5
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES Year ended December 31, 2018	6
Year ended December 31, 2017	7
CONSOLIDATED STATEMENTS OF CASH FLOWS Years ended December 31, 2018 and 2017	8 - 9
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	10 - 23
SUPPLEMENTARY INFORMATION	
Schedule of State Financial Assistance Year ended December 31, 2018	25
UNIFORM GUIDANCE SUPPLEMENTARY INFORMATION	
Schedule of Expenditures of Federal Awards Year ended December 31, 2018	27 - 28
Notes to Schedule of Expenditures of Federal Awards	29
Independent Auditor's Report Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	30
Independent Auditor's Report on Compliance for each Major Program and on Internal Control over Compliance as Required by the Uniform Guidance	32
Schedule of Findings and Questioned Costs	34

INDEPENDENT AUDITOR'S REPORT

June 6, 2019

Board of Directors
Solid Ground Washington
Seattle, Washington

We have audited the accompanying consolidated financial statements of Solid Ground Washington (a nonprofit corporation), which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, and the related consolidated statements of activity, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated 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 consolidated financial statements referred to in the first paragraph of this letter present fairly, in all material respects, the financial position of Solid Ground Washington as of December 31, 2018 and 2017, and the changes in its net assets and partners' equity and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. Consolidating information is presented for purposes of additional analysis, rather than to present the financial position and changes in net assets and partners' equity of the individual organizations, and is not a required part of the consolidated financial statements. Similarly, the accompanying schedule of expenditures of federal awards as required by U.S. Office of Management and Budget and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and the schedule of state financial assistance are presented for purposes of additional analysis and are not a required part of the consolidated financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 6, 2019 on our consideration of Solid Ground Washington's 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 Solid Ground Washington's internal control over financial reporting and compliance.



Jacobson Jarvis & Co, PLLC

SOLID GROUND WASHINGTON

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2018 AND 2017

	2018				2017			
	<u>Solid Ground</u>	<u>Sand Point Housing</u>	<u>Eliminations</u>	<u>Total</u>	<u>Solid Ground</u>	<u>Sand Point Housing</u>	<u>Eliminations</u>	<u>Total</u>
<u>ASSETS</u>								
Current Assets								
Cash	\$ 4,150,137	\$ 6,199,808		\$ 10,349,945	\$ 3,305,484	\$ 1,442,052		\$ 4,747,536
Short-term investments	232,911	-		232,911	217,532	-		217,532
Grants receivable	2,557,942	-		2,557,942	3,020,875	-		3,020,875
Promises to give	260,416	-		260,416	301,254	-		301,254
Other receivables	1,210,426	135,895	(1,127,200)	219,121	585,834	52,844	(424,030)	214,648
Other assets	414,699	138,821	(66,000)	487,520	404,809	177,871	(66,000)	516,680
Total Current Assets	8,826,531	6,474,524	(1,193,200)	14,107,855	7,835,788	1,672,767	(490,030)	9,018,525
Notes Receivable from Related Parties	4,615,119	-	(4,615,119)	-	3,556,574	-	(3,556,574)	-
Restricted Cash and Cash Equivalents	1,350,215	1,467,140		2,817,355	1,295,487	1,383,404		2,678,891
Long-term Promises to Give	100,000	-		100,000	-	-		-
Investment in Sand Point Entities	715,685	-	(715,685)	-	608,621	-	(608,621)	-
Property and Equipment, net	3,596,899	31,148,120		34,745,019	3,772,654	29,936,753		33,709,407
	<u>\$ 19,204,449</u>	<u>\$ 39,089,784</u>	<u>\$ (6,524,004)</u>	<u>\$ 51,770,229</u>	<u>\$ 17,069,124</u>	<u>\$ 32,992,924</u>	<u>\$ (4,655,225)</u>	<u>\$ 45,406,823</u>
<u>LIABILITIES AND NET ASSETS</u>								
Current Liabilities								
Accounts payable	\$ 712,712	\$ 149,523	\$ (183,095)	\$ 679,140	\$ 409,792	\$ 134,045	\$ (69,187)	\$ 474,650
Accrued expenses	773,037	1,146,313	(694,867)	1,224,483	738,380	790,517	(157,950)	1,370,947
Current portion of long-term debt	12,500	6,020,000	-	6,032,500	12,500	-	-	12,500
Total Current Liabilities	1,498,249	7,315,836	(877,962)	7,936,123	1,160,672	924,562	(227,137)	1,858,097
Notes Payable, net of current portion	162,500	14,973,965	-	15,136,465	175,000	17,247,685	-	17,422,685
Forgivable Loans and Accrued Interest Payable	2,828,148	4,930,357	(4,930,357)	2,828,148	3,446,810	3,819,188	(3,819,467)	3,446,531
Total Liabilities	4,488,897	27,220,158	(5,808,319)	25,900,736	4,782,482	21,991,435	(4,046,604)	22,727,313
Net Assets and Partners' Equity								
Net Assets								
Without Donor Restrictions	13,014,642			13,014,642	11,226,413			11,226,413
With Donor Restrictions	1,700,910			1,700,910	1,060,229			1,060,229
Total Net Assets	14,715,552			14,715,552	12,286,642			12,286,642
Partners' Equity		11,869,626	(715,685)	11,153,941		11,001,489	(608,621)	10,392,868
Total Net Assets and Partners' Equity	14,715,552	11,869,626	(715,685)	25,869,493	12,286,642	11,001,489	(608,621)	22,679,510
	<u>\$ 19,204,449</u>	<u>\$ 39,089,784</u>	<u>\$ (6,524,004)</u>	<u>\$ 51,770,229</u>	<u>\$ 17,069,124</u>	<u>\$ 32,992,924</u>	<u>\$ (4,655,225)</u>	<u>\$ 45,406,823</u>

SOLID GROUND WASHINGTON
CONSOLIDATED STATEMENTS OF ACTIVITY
YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018				2017			
	Solid Ground	Sand Point Housing	Eliminations	Total	Solid Ground	Sand Point Housing	Eliminations	Total
Change in Net Assets Without Donor Restrictions and Partners' Equity								
Public support without donor restrictions								
Federal contracts and grants	\$ 2,507,696			\$ 2,507,696	\$ 2,649,890			\$ 2,649,890
State, city, and county contracts and grants	18,499,780			18,499,780	16,671,773			16,671,773
Contributions	1,541,046			1,541,046	1,320,265			1,320,265
Private grants	78,050			78,050	442,994			442,994
Total Public Support Without Donor Restrictions	<u>22,626,572</u>			<u>22,626,572</u>	<u>21,084,922</u>			<u>21,084,922</u>
Revenue								
Fees for services	671,625	\$ 1,926,377	\$ (306,000)	2,292,002	675,064	\$ 1,821,818	\$ (308,833)	2,188,049
Gain on transfer of property	-	-	-	-	795,079	-	-	795,079
Gain on legal settlement	-	-	-	-	-	650,000	-	650,000
Investment income	57,812	2,183	-	59,995	32,600	101	-	32,701
Other revenue	1,183,303	104,431	(1,111,169)	176,565	300,105	34,671	(168,198)	166,578
Total Revenue	<u>1,912,740</u>	<u>2,032,991</u>	<u>(1,417,169)</u>	<u>2,528,562</u>	<u>1,802,848</u>	<u>2,506,590</u>	<u>(477,031)</u>	<u>3,832,407</u>
Net Assets Released from Purpose Restrictions	<u>1,708,912</u>	<u>-</u>	<u>-</u>	<u>1,708,912</u>	<u>1,424,955</u>	<u>-</u>	<u>-</u>	<u>1,424,955</u>
Total Public Support Without Donor Restrictions and Revenue	<u>26,248,224</u>	<u>2,032,991</u>	<u>(1,417,169)</u>	<u>26,864,046</u>	<u>24,312,725</u>	<u>2,506,590</u>	<u>(477,031)</u>	<u>26,342,284</u>
Expenses								
Program services	20,456,059	3,906,689	(1,388,343)	22,974,405	19,698,948	2,962,300	(711,321)	21,949,927
Supporting services	4,003,936	-	-	4,003,936	3,691,345	-	-	3,691,345
Total Expenses	<u>24,459,995</u>	<u>3,906,689</u>	<u>(1,388,343)</u>	<u>26,978,341</u>	<u>23,390,293</u>	<u>2,962,300</u>	<u>(711,321)</u>	<u>25,641,272</u>
Change in Net Assets Without Donor Restrictions and Partners' Equity	<u>1,788,229</u>	<u>(1,873,698)</u>	<u>(28,826)</u>	<u>(114,295)</u>	<u>922,432</u>	<u>(455,710)</u>	<u>234,290</u>	<u>701,012</u>
Change in Net Assets With Donor Restrictions								
Contributions	2,152,935			2,152,935	530,712			530,712
United Way of King County	181,658			181,658	90,100			90,100
Private grants	15,000			15,000	655,627			655,627
Net assets released from purpose restrictions	(1,708,912)	-	-	(1,708,912)	(1,424,955)	-	-	(1,424,955)
Change in Net Assets With Donor Restrictions	<u>640,681</u>	<u>-</u>	<u>-</u>	<u>640,681</u>	<u>(148,516)</u>	<u>-</u>	<u>-</u>	<u>(148,516)</u>
Total Change in Net Assets and Partners' Equity	<u>2,428,910</u>	<u>(1,873,698)</u>	<u>(28,826)</u>	<u>526,386</u>	<u>773,916</u>	<u>(455,710)</u>	<u>234,290</u>	<u>552,496</u>
Net Assets and Partners' Equity - Beginning of Year	12,286,642	11,001,489	(608,621)	22,679,510	11,512,726	12,638,809	(2,212,606)	21,938,929
Partner Equity Contributions, (Distributions) and Syndication	<u>-</u>	<u>2,741,835</u>	<u>(78,238)</u>	<u>2,663,597</u>	<u>-</u>	<u>(1,181,610)</u>	<u>1,369,695</u>	<u>188,085</u>
Net Assets and Partners' Equity - End of Year	<u>\$ 14,715,552</u>	<u>\$ 11,869,626</u>	<u>\$ (715,685)</u>	<u>\$ 25,869,493</u>	<u>\$ 12,286,642</u>	<u>\$ 11,001,489</u>	<u>\$ (608,621)</u>	<u>\$ 22,679,510</u>

SOLID GROUND WASHINGTON

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2018

	Program Services			Supporting Services			Total
	Solid Ground	Sand Point Housing	Total Program Services	Administrative	Resource Development	Total Supporting Services	
Salaries and wages	\$ 8,958,268	\$ 191,482	\$ 9,149,750	\$ 1,882,238	\$ 459,118	\$ 2,341,356	\$ 11,491,106
Employee taxes and benefits	2,972,755	83,479	3,056,234	406,473	113,653	520,126	3,576,360
	11,931,023	274,961	12,205,984	2,288,711	572,771	2,861,482	15,067,466
Contracted services	3,053,099	906,544	3,959,643	306,018	111,475	417,493	4,377,136
Repairs and maintenance	511,046	825,619	1,336,665	92,640	30,707	123,347	1,460,012
Client assistance	1,403,111	-	1,403,111	-	-	-	1,403,111
Depreciation	-	902,731	902,731	202,246	-	202,246	1,104,977
Insurance	900,268	132,560	1,032,828	38,837	7,529	46,366	1,079,194
Utilities	207,313	331,806	539,119	26,183	7,246	33,429	572,548
Rent	401,056	-	401,056	(17,668)	10,745	(6,923)	394,133
Supplies	199,518	50,215	249,733	70,360	34,889	105,249	354,982
Interest	(64,630)	323,046	258,416	75	10,918	10,993	269,409
Other	126,324	84,169	210,493	4,866	347	5,213	215,706
Mailing and printing	107,070	6,246	113,316	55,233	36,743	91,976	205,292
Communication	62,552	13,627	76,179	17,415	3,533	20,948	97,127
Training	68,918	56	68,974	22,425	1,773	24,198	93,172
Taxes and licenses	23,840	52,141	75,981	4,891	1,648	6,539	82,520
Travel and transportation	52,849	2,968	55,817	12,585	873	13,458	69,275
Equipment rental	46,799	-	46,799	433	-	433	47,232
Dues and subscriptions	12,331	-	12,331	25,781	7,093	32,874	45,205
Advertising	9,170	-	9,170	6,191	8,424	14,615	23,785
Fuel	16,059	-	16,059	-	-	-	16,059
Total Expenses	\$ 19,067,716	\$ 3,906,689	\$ 22,974,405	\$ 3,157,222	\$ 846,714	\$ 4,003,936	\$ 26,978,341

SOLID GROUND WASHINGTON

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2017

	Program Services			Supporting Services			Total
	Solid Ground	Sand Point Housing	Total Program Services	Administrative	Resource Development	Total Supporting Services	
Salaries and wages	\$ 9,547,121	\$ 144,396	\$ 9,691,517	\$ 1,685,425	\$ 477,908	\$ 2,163,333	\$ 11,854,850
Employee taxes and benefits	2,802,847	70,073	2,872,920	377,955	121,746	499,701	3,372,621
	12,349,968	214,469	12,564,437	2,063,380	599,654	2,663,034	15,227,471
Contracted services	2,562,360	824,841	3,387,201	178,379	122,975	301,354	3,688,555
Repairs and maintenance	518,984	165,561	684,545	104,972	9,360	114,332	798,877
Client assistance	1,566,742	-	1,566,742	-	-	-	1,566,742
Depreciation	-	969,070	969,070	200,185	-	200,185	1,169,255
Insurance	847,282	209,864	1,057,146	37,217	6,820	44,037	1,101,183
Utilities	173,570	337,928	511,498	23,168	6,260	29,428	540,926
Rent	390,547	-	390,547	(18,556)	9,446	(9,110)	381,437
Supplies	184,961	46,349	231,310	41,633	13,771	55,404	286,714
Interest	(31,591)	90,776	59,185	1,160	11,930	13,090	72,275
Other	37,262	35,632	72,894	49,026	(165)	48,861	121,755
Mailing and printing	111,259	4,732	115,991	60,523	39,833	100,356	216,347
Communication	64,760	12,421	77,181	16,285	3,779	20,064	97,245
Training	65,681	199	65,880	18,947	2,290	21,237	87,117
Taxes and licenses	23,120	49,515	72,635	4,312	1,716	6,028	78,663
Travel and transportation	45,917	943	46,860	8,693	2,238	10,931	57,791
Equipment rental	38,161	-	38,161	1,596	21,348	22,944	61,105
Dues and subscriptions	14,880	-	14,880	29,826	3,707	33,533	48,413
Advertising	5,108	-	5,108	11,716	3,921	15,637	20,745
Fuel	18,656	-	18,656	-	-	-	18,656
Total Expenses	<u>\$ 18,987,627</u>	<u>\$ 2,962,300</u>	<u>\$ 21,949,927</u>	<u>\$ 2,832,462</u>	<u>\$ 858,883</u>	<u>\$ 3,691,345</u>	<u>\$ 25,641,272</u>

SOLID GROUND WASHINGTON
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Cash Flows from Operating Activities		
Cash received from:		
Governmental agencies	\$ 20,654,918	\$ 18,310,757
Donors	3,451,840	2,509,970
Service recipients	2,287,529	2,016,571
Investments	59,995	32,701
Other	176,565	166,578
Cash paid for:		
Personnel	(15,086,609)	(15,400,402)
Services and supplies	(10,083,616)	(8,596,836)
Interest	<u>(178,172)</u>	<u>(17,238)</u>
Net Cash Provided (Used) by Operating Activities	<u>1,282,450</u>	<u>(977,899)</u>
Cash Flows from Investing Activities		
Proceeds from sale of investments	4,093	67,631
Purchase of investments	(19,472)	(115,129)
Purchases of property and equipment	<u>(2,267,631)</u>	<u>(2,833,372)</u>
Net Cash Used by Investing Activities	<u>(2,283,010)</u>	<u>(2,880,870)</u>
Cash Flows from Financing Activities		
Syndication costs	(15,000)	(50,000)
Partner equity contributions	2,678,597	238,085
Proceeds from grants restricted to investment in property	100,000	100,000
Proceeds from legal settlement	-	800,000
Repayments on notes payable	(12,500)	(2,730,871)
Borrowings on notes payable	<u>3,851,872</u>	<u>6,453,930</u>
Net Cash Provided by Financing Activities	<u>6,602,969</u>	<u>4,811,144</u>
Changes in Cash	5,602,409	952,375
Cash - beginning of year	<u>4,747,536</u>	<u>3,795,161</u>
Cash - end of year	<u>\$ 10,349,945</u>	<u>\$ 4,747,536</u>

SOLID GROUND WASHINGTON
CONSOLIDATED STATEMENT OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Reconciliation of Change in Net Assets and Partners' Equity to Net Cash Flows from Operating Activities		
Change in net assets and partners' equity	\$ 526,386	\$ 552,496
Adjustments to reconcile change in net assets and partners' equity to net cash provided (used) by operating activities		
Depreciation	1,104,977	1,169,255
Amortization of debt issuance costs	46,426	19,070
Accrued interest on loans	44,811	35,967
Forgiveness of debt	(815,491)	(15,770)
Gain on legal settlement	-	(650,000)
Gain on transfer of property	-	(795,079)
Change in assets and liabilities		
Grants receivable	462,933	(1,010,906)
Promises to give	(159,162)	(109,200)
Other receivables	(4,473)	(172,077)
Other assets	29,160	1,807
Restricted cash and cash equivalents	(138,464)	119,355
Accounts payable	204,490	49,515
Accrued expenses	<u>(19,143)</u>	<u>(172,332)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 1,282,450</u>	<u>\$ (977,899)</u>

SOLID GROUND WASHINGTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Operations - Solid Ground Washington (Solid Ground) is a not-for-profit organization established in 1974 in Seattle, Washington. Solid Ground assists governmental, educational, and private agencies with operating community service programs and provides assistance to underprivileged and economically distressed persons. Major program areas include:

Residential Services: We provide service-enriched housing, including emergency shelter and transitional and permanent housing, for homeless individuals and families throughout King County. Services to the singles and families we house include life skills training, children's programs, and financial assistance.

Stabilization Services: For families who are at high risk of displacement, we prevent homelessness through financial skills training, tenant counseling and one-time financial assistance to regain stability and thrive.

Transportation: We provide door-to-door specialized transportation to elders and people living with disabilities who cannot access fixed-route transportation, as well as provide shuttle service for people accessing human services in the downtown core.

Advocacy: We provide one-on-one advocacy to help people access government benefits, as well as broad-based political advocacy, helping low-income communities to participate in the political process. We also provide free legal representation to the growing number of vulnerable people seeking our help and prevent the dismantling of our state's safety net of basic health and social service programs.

Hunger and Food Resources: We create access to fresh, organic produce as well as education around the importance of healthy eating. Our strategies include: growing and providing fresh produce to Seattle food banks; teaching people living on low incomes how to grow their own produce; and providing instruction on nutritious cooking on a limited budget.

Principles of consolidation

The financial statements consolidate the assets, liabilities, and activities of Solid Ground and Sand Point Community Connections, LLC (SPCC); SPH Two, LLLP; Sand Point Site B Stage 1, LP; and Sand Point Phase 2, LP. Solid Ground is the sole member of SPCC. SPCC is the sole general partner of the three limited partnerships. As such, Solid Ground has a controlling financial and legal interest in these entities. All significant intercompany transactions have been eliminated in the consolidation.

Basis of presentation

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

SOLID GROUND WASHINGTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net Assets With Donor Restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Net assets with donor restrictions at December 31 were as follows:

	<u>2018</u>	<u>2017</u>
Sandpoint Programs	\$ 738,953	\$ 646,173
Capacity Building	249,333	122,135
Advocacy	200,000	2,295
Other programs	512,624	289,626
	<u>\$ 1,700,910</u>	<u>\$ 1,060,229</u>

Contributions restricted by donors are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions.

When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activity as net assets released from restriction. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are released from restriction when the assets are placed in service.

Income taxes

Solid Ground Washington is exempt from federal income tax as an entity described in Internal Revenue Code (IRC) Section 501(c)(3) except to the extent of unrelated business taxable income as defined under IRC Sections 511 through 515. Solid Ground did not incur unrelated business income tax for the years ended December 31, 2018 and 2017. Accordingly, no provision has been made for federal income tax in the accompanying consolidated financial statements.

No provision or benefit for income taxes has been included in these consolidated financial statements for the partnerships and LLCs, since taxable income or loss passes through to, and is reportable by, the partners or members individually.

SOLID GROUND WASHINGTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash

Cash consists of general checking and savings accounts. In accordance with the terms of its partnership agreements and various loans, Solid Ground is required to establish and maintain various operating and replacement reserves with required minimum balances and/or minimum annual deposits. In addition, the Board of Directors of Solid Ground has established certain reserve funds. Required and designated restricted reserve account balances as of December 31 are as follows:

	<u>2018</u>	<u>2017</u>
Board Established Reserve		
Headquarters Depreciation Fund	\$ 625,534	\$ 572,836
Unemployment Compensation Trust	400,661	417,883
Broadview		
Operating Reserve	213,715	209,764
Replacement Reserve	28,988	20,042
Bethlehem House		
Operating Reserve	34,028	32,334
Replacement Reserve	47,289	42,628
SPH Two, LLLP		
Security Deposits	16,945	15,735
Operating Reserve	225,337	224,817
Replacement Reserve	278,189	241,547
Sand Point Site B Stage 1, LP		
Security Deposits	27,920	27,908
Operating Reserve	316,051	315,782
Replacement Reserve	105,336	84,192
Sand Point Phase 2, LP		
Security Deposits	18,929	18,925
Operating Reserve	212,727	212,599
Replacement Reserve	265,706	241,899
	<u>\$ 2,817,355</u>	<u>\$ 2,678,891</u>

Fair value measurements

In accordance with financial accounting standards, a three-tiered hierarchy of input levels is used for measuring fair value. Financial accounting standards define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Valuation techniques utilized to determine fair value are consistently applied. The three tiers of inputs used for fair value measurements are as follows:

SOLID GROUND WASHINGTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Level 1: Fair values are based on quoted prices in active markets for identical assets and liabilities.

Level 2: Fair values are based on observable inputs that include: quoted market prices for similar assets or liabilities; quoted market prices that are not in an active market; or other inputs that are observable in the market and can be corroborated by observable market data for substantially the full term of the assets.

Level 3: Fair values are calculated by the use of pricing models and/or discounted cash flow methodologies, and may require significant management judgment or estimation. These methodologies may result in a significant portion of the fair value being derived from unobservable data.

Promises to give and grants receivable

Unconditional promises to give are recognized as revenues in the period received as assets or reductions of liabilities, depending on the form of the benefit received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Grants receivable, promises to give and other receivables are stated at the amount management expects to collect from outstanding balances. As of December 31, 2018 and 2017, an allowance for doubtful accounts was not deemed necessary. Solid Ground has established credit policies and historically the losses related to nonpayment have been very low as a percentage of public support and revenue.

The fair value of promises to give is estimated by discounting future cash flows using a rate of 3%. Unconditional promises to give were due as follows as of December 31:

	<u>2018</u>	<u>2017</u>
Due in less than one year	\$ 260,416	\$ 319,945
Due in one to five years	<u>100,000</u>	<u>-</u>
	360,416	319,945
Less: Discount to net present value	<u>-</u>	<u>(18,691)</u>
Total Unconditional Promises to Give	<u>\$ 360,416</u>	<u>\$ 301,254</u>

Property and equipment

Property and equipment are stated at cost or, if donated, at fair value at date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. Solid Ground capitalizes assets purchased in excess of \$1,000 with a useful life longer than one year.

SOLID GROUND WASHINGTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property acquired under certain government grant programs is considered to be owned by Solid Ground while used in the program for which it was purchased or in other future authorized programs. However, some governmental grantors have a reversionary interest in the property and its disposition as well, as the ownership of any proceeds therefrom are subject to governmental regulation.

At December 31, property and equipment consisted of the following:

	Estimated <u>Useful Lives</u>	<u>2018</u>	<u>2017</u>
Building and improvements	20 - 40 years	\$49,050,670	\$43,909,229
Furniture and equipment	2 - 7 years	885,025	871,308
Vehicles	7 years	60,611	60,611
Leasehold improvements	Lease term	<u>199,769</u>	<u>199,769</u>
		50,196,075	45,040,917
Less accumulated depreciation		<u>(16,252,277)</u>	<u>(15,153,856)</u>
		33,943,798	29,887,061
Land		773,486	773,486
Construction in progress		<u>27,735</u>	<u>3,048,860</u>
		<u>\$34,745,019</u>	<u>\$33,709,407</u>

Debt issuance costs

Debt issuance costs, net of accumulated amortization, are reported as a direct reduction of the obligation to which such costs relate. Amortization of debt issuance costs is reported as a component of interest expense.

Government grants and contracts

Government grants and contracts are subject to audit which could result in adjustments to revenue. The adjustments are recorded at the time that such amounts can first be reasonably determined, normally upon notification by the government agency. During the years ended December 31, 2018 and 2017, no such adjustments were made.

Revenue

Revenue is defined as income earned through fee-for-service agreements that is paid by the recipients of the services provided and rental subsidies paid by third parties. Revenue is recognized in the period in which the related service is provided.

SOLID GROUND WASHINGTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Donated goods and services

Solid Ground receives donations of food, supplies, property and equipment, and the use of facilities for program services and events. Such goods are recognized as support at their estimated fair value on the date of receipt. The estimated fair value of goods donated to Solid Ground totaled \$339,287 and 401,748, respectively, for the years ended December 31, 2018 and 2017.

During the years ended December 31, 2018 and 2017, Solid Ground received non-cash donations of \$18,400 and \$18,780, respectively, for services. Solid Ground recognizes donated services if the services received: (a) create or enhance nonfinancial assets or (b) require specialized skills provided by individuals possessing those skills and would typically need to be purchased if not donated. Many volunteers have donated significant time to Solid Ground's activities. The values of these volunteer services are not recorded in the accompanying consolidated financial statements as they do not meet the criteria for recognition. Solid Ground was the recipient of approximately 15,500 and 9,900 volunteer service hours, respectively, for the years ended December 31, 2018 and 2017. In addition, another 128,000 and 126,200 volunteer service hours, respectively, were coordinated in 2018 and 2017, by Solid Ground through its Volunteer Programs to assist others in the community.

Allocation of expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statements of activity and of functional expenses. Where possible, specific expenses have been charged directly to the appropriate category. When functions are shared or costs are intermingled, expenses are allocated based on employee hours (such as salaries and general expenses) or square footage used (such as rent, utilities, and building depreciation).

Amortization

Organization costs are expensed as incurred. Tax credit fees are amortized over the term of the tax credit period using the straight-line method.

Use of estimates

The preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

SOLID GROUND WASHINGTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE B - LIQUIDITY

Solid Ground receives the majority of its revenue from government contracts, which are always paid in arrears, therefore Solid Ground pays significant attention to its cash flow in order to fund operations while waiting for reimbursement. Solid Ground also receives contributions and promises to give restricted by donors, and considers contributions restricted for programs that are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. Solid Ground manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs, and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged.

Solid Ground monitors its liquidity quarterly and maintains current cash and marketable securities to fund at least 45 days' operating expenses, and current assets divided by current liabilities of at least 1. To achieve these targets, Solid Ground forecasts its future cash flows quarterly and actively manages its receivables. During the years ended December 31, 2018 and 2017, the level of liquidity exceeded all minimums.

Financial assets available to meet general expenditures within one year were as follows as of December 31, 2018.

Consolidated	
Total financial assets	\$ 16,537,690
Restrictions on the use of financial assets	
Restricted cash	(2,817,355)
Promises to give due in more than one year	(100,000)
Net assets with donor restrictions as to purpose	<u>(738,953)</u>
Financial assets available to meet general expenditures within one year	<u>\$ 12,881,382</u>
Solid Ground only	
Total financial assets	\$ 9,862,047
Restrictions on the use of financial assets	
Restricted cash	(1,350,215)
Promises to give due in more than one year	(100,000)
Net assets with donor restrictions as to purpose	<u>(738,953)</u>
Financial assets available to meet general expenditures within one year	<u>\$ 7,672,879</u>

SOLID GROUND WASHINGTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE C - INVESTMENTS

Short-term investments are classified within the fair value hierarchy and consist of the following:

As of December 31, 2018	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Certificates of deposit	\$ 113,402	\$ -	\$ -	\$ 113,402
Money market funds	119,509	-	-	119,509
	<u>\$ 232,911</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 232,911</u>
As of December 31, 2017	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Certificates of deposit	\$ 112,894	\$ -	\$ -	\$ 112,894
Money market funds	104,638	-	-	104,638
	<u>\$ 217,532</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 217,532</u>

NOTE D - LINE OF CREDIT

Solid Ground maintains a revolving line of credit with maximum borrowings of \$1,000,000 bearing interest at 3.0% plus the one-month LIBOR rate, which was 2.522% at signing. The line is secured by Solid Ground's deposit account and matures on January 2021.

NOTE E - NOTES PAYABLE

Notes payable consist of the following:

	<u>2018</u>	<u>2017</u>
Non-interest bearing note payable from Solid Ground to the State of Washington, Department of Community Development, secured by property. The note is due in annual installments of \$12,500 with final payment due January 2033.	\$ 175,000	\$ 187,500
Notes payable from SPH Two, LLLP to State of Washington, Department of Community, Trade and Economic Development. The notes were assigned from SPH One, LLC to SPH Two, LLLP during 2017, and are non-interest bearing, collateralized by a deed of trust on the real property, all payments deferred, and mature in 2042.	1,532,810	1,532,810
Note payable from SPH Two, LLLP to the City of Seattle, created in the August 2017 closing of SPH Two, LLLP allows advances of \$3,616,880 and matures July 2068. Interest on this note accrues at 1% per annum and all payments are deferred until 2068. Note is collateralized by a deed of trust on the real property.	3,629,283	452,769
Note payable from SPH Two, LLLP to the Seattle Housing Authority, non-interest bearing, collateralized by a deed of trust on the real property, and maturing in 2067.	150,175	-

SOLID GROUND WASHINGTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE E - NOTES PAYABLE (Continued)	<u>2018</u>	<u>2017</u>
Construction note payable from SPH Two, LLLP to Homestreet Bank in an amount up to \$6,020,000. Loan bears interest at LIBOR plus 1.95% (4.41% as of December 31, 2018) and matures August 2019. The note is secured by general partner equity interest and tax credits awarded to SPH Two, LLLP. The note was repaid in January 2019.	6,020,000	5,637,118
Construction note payable from Sand Point Phase 2, LP to the City of Seattle in an amount up to \$5,873,465, with all payments deferred until maturity March 2054, with the possibility of one 25-year extension. The loan is non-interest bearing, with a contingent interest rate in place in the event of a default.	3,773,465	3,773,465
Note payable from Sand Point Site B Stage 1, LP to the City of Seattle maturing in 2061. Interest on this note accrues at 1% per annum and all payments are deferred until maturity. Note is collateralized by a deed of trust on the real property.	3,512,059	3,479,701
Notes payable from Sand Point Site B Stage 1, LP to State of Washington, Department of Community, Trade and Economic Development, non-interest bearing, collateralized by a deed of trust on the real property, and maturing in 2061.	<u>2,500,000</u>	<u>2,500,000</u>
	21,292,792	17,563,363
Less unamortized loan issuance costs	(123,827)	(128,178)
Less current portion	<u>(6,032,500)</u>	<u>(12,500)</u>
	<u>\$ 15,136,465</u>	<u>\$ 17,422,685</u>

Principal payments for the notes payable are as follows for the years ending December 31:

2019	\$ 6,032,500
2020	12,500
2021	12,500
2022	12,500
2023	12,500
Thereafter	<u>15,210,292</u>
	<u>\$ 21,292,792</u>

SOLID GROUND WASHINGTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE F - FORGIVABLE LOANS AND ACCRUED INTEREST PAYABLE

Solid Ground

Emergency Shelter Loan - Solid Ground owns and operates an emergency shelter for women and children. The acquisition and renovation of the facility was partially financed with loan proceeds from the City of Seattle, Department of Housing and Human Services. The loan, bearing interest at 1%, is collateralized by a deed of trust on the real property, and matures in the year 2031 with an option to extend maturity for an additional 35 years. At December 31, 2018 and 2017, the loan balance, including accrued interest payable, totaled \$1,803,501 and \$1,818,991, respectively.

Under the terms of the loan agreement, as long as Solid Ground does not sell or use the property for an unauthorized purpose, the loan will be forgiven at the extended maturity date. Beginning in 2012, accrued interest payable is forgiven at the rate of 5% per year over the following 20 years. In the event the property is sold or used for an unauthorized purpose, the loan is payable on demand and subject to additional interest representing the lender's pro rata share of the appreciated value of the property.

Headquarters Loan - During 2001, construction of Solid Ground's headquarters building was partially financed with loan proceeds from the City of Seattle, Department of Housing and Human Services. The loan is non-interest bearing, collateralized by a deed of trust on the real property, and matured in 2018. At December 31, 2018 and 2017, the outstanding loan balance totaled \$0 and \$800,000, respectively.

Bethlehem House Loans - During 2000, Solid Ground received two forgivable loans from the State of Washington, Department of Community, Trade and Economic Development, and from the City of Seattle. In accordance with the loan agreements, the loan proceeds were used to partially finance the purchase of the Bethlehem House, an emergency and extended shelter for families of up to ten people.

The forgivable loan of \$162,888 from the State of Washington is non-interest bearing, collateralized by a deed of trust on the real property, and matures in 2051. The forgivable loan of \$182,913 from the City of Seattle bears interest at 1%, is collateralized by a deed of trust on the real property, and matures in the year 2041, with an option to extend maturity for an additional 35 years. At December 31, 2018 and 2017, the loan balances (including accrued interest payable) totaled \$379,647 and \$377,817, respectively.

Under the terms of the Bethlehem House loans, as long as Solid Ground does not sell or use the property for an unauthorized purpose, the loans will be forgiven at the maturity date. In the event the property is sold or used for an unauthorized purpose, the loans are payable on demand and subject to additional interest representing the lenders' pro rata shares of the property's appreciated value.

SOLID GROUND WASHINGTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE F - FORGIVABLE LOANS AND ACCRUED INTEREST PAYABLE (Continued)

Santos Place Loans - During 2017, Solid Ground received a forgivable loan from the Federal Home Loan Bank in the amount of \$450,000. In accordance with the loan agreements, the loan proceeds are to be used to partially finance the rehabilitation and construction of Santos Place, an affordable housing program building. The forgivable loan is non-interest bearing, collateralized by a deed of trust on the real property, and matures fifteen years from the date of the project completion.

Under the terms of the loan, as long as Solid Ground does not sell or use the property for an unauthorized purpose, the loans will be forgiven at the maturity date. In the event the property is sold or used for an unauthorized purpose, the loan is payable on demand.

During 2018, Solid Ground received a forgivable loan of \$195,000 from the State of Washington, Department of Community, Trade and Economic Development. In accordance with the loan agreements, the loan proceeds are to be used to partially finance the rehabilitation and construction of Santos Place, an affordable housing program building. The forgivable loan is non-interest bearing, collateralized by a deed of trust on the real property, and matures in 2067.

Under the terms of the loan, as long as Solid Ground does not sell or use the property for an unauthorized purpose, the loans will be forgiven at the maturity date. In the event the property is sold or used for an unauthorized purpose, the loans are payable on demand and subject to additional interest representing the lenders' pro rata shares of the property's appreciated value.

NOTE G - BOARD-DESIGNATED ENDOWMENT

Solid Ground's Board of Directors established an endowment to provide a permanent source of revenue. The endowment policies allow for both a donor-restricted endowment and a board-designated endowment. The board-designated endowment is managed in accordance with the same policies as those applied to the donor-restricted endowment, except that a supermajority of 75% of the board may choose to exceed the spending policies that govern the donor-restricted endowment.

While the Board has some discretion over the use of the board-designated endowment, it consists of amounts that are intended by the Board to be held in perpetuity. At December 31, 2018 and 2017, the Board has designated reserves of \$34,775 and \$27,150, respectively, for the endowment.

NOTE H - CONCENTRATIONS

Credit Risk - Financial instruments that potentially subject Solid Ground to concentrations of credit risk consist of cash, investments, and accounts receivable. Solid Ground places its temporary cash deposits with major financial institutions. At times, balances may exceed federally insured limits. Investments consist primarily of money market funds and certificates of deposit.

SOLID GROUND WASHINGTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE H - CONCENTRATIONS (Continued)

Receivable balances are primarily from a variety of federal, Washington State and local government agencies. Collateral is generally not required on any of these assets. Solid Ground has not experienced a history of significant credit-related losses.

Solid Ground receives the majority of its support for its operating activities from federal and local governments. A severe reduction in the level of this support, if this were to occur, may have a significant effect on Solid Ground's activities.

Support and Revenue - For the years ended December 31, 2018 and 2017, Solid Ground received 47% and 50% of its support and revenue from one funding source. For the years ended December 31, 2018 and 2017, 51% and 69%, respectively, of Solid Ground's total outstanding receivable balance was from the same funding source. For the years ended December 31, 2018 and 2017, 55% and 27%, respectively, of Solid Ground's total outstanding pledge receivable balance was from one donor.

Solid Ground has three different unions representing employees. There are 96 office and professional employees represented by OPEIU Local 8 under a contract ending on June 30, 2020. The 111 employees who are Solid Ground Transportation Operators are represented by Amalgamated Transit Union (ATU) Local 587 under a contract ended on December 31, 2018. Solid Ground is currently renegotiating the next collective bargaining agreement with ATU. The previous contract has been extended through August 2019. The seven Solid Ground Transportation Supervisors are represented by International Association of Machinists and Aerospace Workers, AFL-CIO, district Lodge 751 under a contract ending on August 31, 2021. Solid Ground's other employees are not represented by labor unions.

NOTE I - NONCONTROLLING INTEREST - SAND POINT HOUSING

Solid Ground, through its sole membership in SPCC, holds the controlling interest in three Sand Point Housing tax credit limited partnerships. The change in partners' equity attributed to controlling interest and noncontrolling interest is as follows:

	Controlling <u>Interest</u>	Noncontrolling <u>Interest</u>	<u>Total</u>
Balance January 1, 2017	\$ 2,212,606	\$ 10,426,203	\$ 12,638,809
Change in net assets and partners' equity	(234,290)	(221,420)	(455,710)
Partners' capital contributions	<u>(1,369,695)</u>	<u>188,085</u>	<u>(1,181,610)</u>
Balance December 31, 2017	608,621	10,392,868	11,001,489
Change in net assets and partners' equity	28,826	(1,902,524)	(1,873,698)
Partners' capital (distributions) contributions	<u>78,238</u>	<u>2,663,597</u>	<u>2,741,835</u>
Balance December 31, 2018	<u>\$ 715,685</u>	<u>\$ 11,153,941</u>	<u>\$ 11,869,626</u>

SOLID GROUND WASHINGTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE J - LEGAL SETTLEMENT

Sand Point Site B Stage 1, LP experienced a roof leakage and water damage which was first discovered in 2015. As the damage was found to be the result of construction defects, Solid Ground conducted mediation with the responsible parties and received settlements of \$650,000 in 2017 and \$150,000 in 2016. Repairs and investigation costs have totaled \$1,123,967 through December 31, 2018. The remaining repairs, investigation, tenant relocation and other related costs are expected to total approximately \$388,573.

NOTE K - RETIREMENT PLAN

Solid Ground's 401(k) plan (the Plan) covers all employees who have completed six months of service, average 20 hours per week, and have attained the age of 18. Solid Ground contributes 3% of eligible employees' gross income to the Plan each month. Beginning January 1, 2015, Solid Ground instituted an employer match of 50% of an employee's first 1% salary deferral and 25% of the employee's next 2% salary deferral. Employer contributions are 100% vested at the time contributions are made.

Union employees may elect to participate in a union-sponsored retirement plan rather than Solid Ground's plan. Employees are eligible for the union-sponsored plan immediately upon being hired, regardless of the number of hours worked. For the years ended December 31, 2018 and 2017, Solid Ground contributed \$404,333 and \$392,603, respectively, in total to the plans.

NOTE L - COMMITMENTS

Rental Payment Commitments - Solid Ground has noncancellable operating lease agreements for office space, operating facilities and equipment, expiring on various dates through 2025. Monthly payments range from \$190 to \$22,776. Generally, the leases provide that insurance and maintenance are the responsibility of Solid Ground. Total rent expense for lease agreements for the years ended December 31, 2018 and 2017 was \$441,365 and \$442,542, respectively.

Obligations under non-cancelable operating leases for future years ending December 31 are as follows:

2019	\$	429,269
2020		419,469
2021		375,384
2022		287,908
2023		296,020
Thereafter		<u>526,740</u>
		<u>\$ 2,334,790</u>

SOLID GROUND WASHINGTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE L - COMMITMENTS (Continued)

Rental Income Commitments - A portion of the office space owned by Solid Ground is leased to one tenant under a non-cancelable operating lease that expires in 2030. Total rental income from this tenant for the years ended December 31, 2018 and 2017 was \$50,632 and \$49,153, respectively.

NOTE M- SUBSEQUENT EVENTS

Management has evaluated events occurring subsequent to December 31, 2018 through June 6, 2019, which is the date the financial statements were available to be issued and has recognized in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at December 31, 2018, including the estimates inherent in the processing of financial statements.

SUPPLEMENTARY INFORMATION

SOLID GROUND WASHINGTON

SCHEDULE OF STATE FINANCIAL ASSISTANCE

YEAR ENDED DECEMBER 31, 2018

Grantor	Contract	State
Program Title	Number	Expenditures
Washington State Department of Agriculture		
Emergency Food Assistance Program (EFAP)	K2184	\$ 285,639
Washington State Department of Social & Health Services		
Broadview Emergency Shelter	1712-96065	26,930
Broadview Emergency Shelter	5900391 - II	39,900
Statewide Poverty Action Network (SPAN)	1832-32220	33,771
		<u>100,601</u>
Washington Department of Commerce		
DV Legal Advocacy	S18-31108-023	10,272
DV Legal Advocacy	S19-31108-023	14,263
RSVP	009	30,494
Housing Stability	5900391 - VII	313,129
Journey Home	5900391 IV	540,692
KC CHG - Family Shelter	5900391 III	25,000
Family Assistance	S18-32101-227	21,456
King County SPSING	5900391-VI	29,550
Broadview Transitional Housing	5900391 V	5,700
		<u>990,556</u>
Total State Financial Assistance		<u>\$ 1,376,796</u>

UNIFORM GUIDANCE SUPPLEMENTARY INFORMATION

SOLID GROUND WASHINGTON

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2018

Federal Grantor	Contract Number	CFDA Number	Passed Through to Subrecipients	Federal Expenditures
Department of Agriculture				
<i>Washington State Department of Health</i>				
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program"	CBO022832			
	SNAP Cluster	10.561		\$ 216,801
Department of Housing and Urban Development				
"Continuum of Care Program"	WA0009L0T001609			81,344
"Continuum of Care Program"	WA0009L0T001710			66,249
<i>King County Department of Community and Human Services</i>				
"Continuum of Care Program"	5859192 EX II			193,676
<i>City of Seattle Human Services Department</i>				
"Continuum of Care Program"	DA18-1543			441,212
"Continuum of Care Program"	DA17-1543			295,429
"Continuum of Care Program"	DA18-1626			81,582
"Continuum of Care Program"	DA19-1626			302,268
		14.267*		<u>1,461,760</u>
<i>King County Department of Community and Human Services</i>				
"Community Development Block Grants/ Entitlement Grants"	5900391 EX VII			
	CDBG - Entitlement Grants Cluster	14.218	\$ 193,597	291,090
Total Department of Housing and Urban Development			<u>193,597</u>	<u>1,969,651</u>
Department of Justice				
<i>Washington State Department of Social and Health Services</i>				
"Crime Victim Assistance"	1812-32753			110,305
"Crime Victim Assistance"	1712-96065			87,234
<i>Washington State Department of Commerce</i>				
"Crime Victim Assistance"	F17-31119-705			3,303
"Crime Victim Assistance"	F17-31219-738			11,697
		16.575		<u>212,539</u>

* Denotes major program

SOLID GROUND WASHINGTON

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2018

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Solid Ground Washington and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the Uniform Guidance. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic consolidated financial statements.

NOTE B - INDIRECT COST RATE

Solid Ground Washington has a negotiated indirect cost rate for use on federal grants and contracts. For 2018, the provisional rate is 14%, based on total direct costs excluding capital expenditures, subawards and flow-through funds. As such, Solid Ground Washington is not eligible to elect use of the 10% *de minimus* indirect cost rate.

INDEPENDENT AUDITOR'S REPORT
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS*

June 6, 2019

Board of Directors
Solid Ground Washington
Seattle, Washington

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Solid Ground Washington, which comprise the consolidated statement of financial position as of December 31, 2018, and the related consolidated statements of activity, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated June 6, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Solid Ground Washington's 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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Solid Ground Washington's internal control. Accordingly, we do not express an opinion on the effectiveness of Solid Ground Washington's 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 Solid Ground Washington's consolidated 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 or other matters 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 Solid Ground Washington'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 Solid Ground Washington's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Jacobson Jarvis & Co, PLLC

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE AS REQUIRED BY THE UNIFORM GUIDANCE

June 6, 2019

Board of Directors
Solid Ground Washington
Seattle, Washington

Report on Compliance with Each Major Federal Program

We have audited Solid Ground Washington's compliance with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on each of Solid Ground Washington's major federal programs for the year ended December 31, 2018. Solid Ground Washington's major federal programs are identified in the summary of audit results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Solid Ground Washington's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Solid Ground Washington's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Solid Ground Washington's compliance.

Opinion on Each Major Federal Program

In our opinion, Solid Ground Washington complied, in all material respects, with the types of compliance requirements referred to in the first paragraph of this letter that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2018.

Report on Internal Control Over Compliance

Management of Solid Ground Washington is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit, we considered Solid Ground Washington's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Solid Ground Washington's internal control over compliance.

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified.



Jacobson Jarvis & Co, PLLC

SOLID GROUND WASHINGTON

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED DECEMBER 31, 2018

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unmodified opinion on the consolidated financial statements of Solid Ground Washington.
2. No material weaknesses relating to the consolidated financial statements are reported in the "Independent Auditor's Report Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*."
3. No instances of noncompliance material to the consolidated financial statements of Solid Ground Washington were disclosed during the audit.
4. No material weaknesses relating to the audit of the major federal awards programs are reported in the "Independent Auditor's Report on Compliance for each Major Program and on Internal Control over Compliance as Required by the Uniform Guidance."
5. The auditor's report on compliance for the major federal award program for Solid Ground Washington expresses an unmodified opinion.
6. Audit findings relative to the major federal award program for Solid Ground Washington are reported in Part C of this Schedule.
7. The program tested as major was CFDA No. 14.267 "Continuum of Care Program."
8. The threshold used for distinguishing between Type A and B programs was \$750,000.
9. Solid Ground Washington was determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

None

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT

None