

SOLID GROUND WASHINGTON

FINANCIAL STATEMENTS
With Independent Auditor's Report

YEAR ENDED DECEMBER 31, 2012

OMB A-133 SUPPLEMENTARY FINANCIAL REPORTS
YEAR ENDED DECEMBER 31, 2012



SOLID GROUND WASHINGTON
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2012

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INDEPENDENT AUDITOR'S REPORT

June 6, 2013

Board of Directors
Solid Ground Washington
Seattle, Washington

We have audited the accompanying consolidated financial statements of Solid Ground Washington, which comprise the consolidated statement of financial position as of December 31, 2012, and the related consolidated statements of activities, functional expenses and cash flows for the year 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 financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 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 the 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Solid Ground Washington as of December 31, 2012, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the 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 governmental awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and schedule of state financial assistance are presented for purposes of additional analysis and are not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 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, 2013 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 and Jarvis & Co, PLLC

SOLID GROUND WASHINGTON

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2012

| | <u>Solid Ground</u> | <u>Sand Point LPs</u> | <u>Eliminations</u> | <u>Total</u> |
|--|----------------------|-----------------------|-----------------------|----------------------|
| <u>ASSETS</u> | | | | |
| Current Assets | | | | |
| Cash | \$ 2,961,690 | \$ 1,290,332 | | \$ 4,252,022 |
| Short-term investments | 138,003 | - | | 138,003 |
| Grants receivable | 2,329,498 | 354 | | 2,329,852 |
| Promise to give | 570,752 | - | | 570,752 |
| Other receivables | 622,244 | 5,816 | \$ (389,453) | 238,607 |
| Other assets | <u>202,727</u> | <u>69,501</u> | <u>-</u> | <u>272,228</u> |
| Total Current Assets | 6,824,914 | 1,366,003 | (389,453) | 7,801,464 |
| Notes Receivable from Related Parties | 2,494,447 | - | (2,494,447) | - |
| Restricted Cash and Cash Equivalents | 1,829,756 | 998,144 | | 2,827,900 |
| Long-term Promises to Give | 555,622 | - | | 555,622 |
| Investment in Sand Point Limited Partnerships | 1,683,233 | - | (1,683,233) | - |
| Property and Equipment, net | <u>5,736,066</u> | <u>17,332,840</u> | <u>-</u> | <u>23,068,906</u> |
| | <u>\$ 19,124,038</u> | <u>\$ 19,696,987</u> | <u>\$ (4,567,133)</u> | <u>\$ 34,253,892</u> |
| <u>LIABILITIES AND NET ASSETS</u> | | | | |
| Current Liabilities | | | | |
| Accounts payable | \$ 442,952 | \$ 437,395 | \$ (168,505) | \$ 711,842 |
| Accrued expenses | 678,821 | 158,417 | (24,360) | 812,878 |
| Current portion of long-term debt | <u>277,517</u> | <u>-</u> | <u>-</u> | <u>277,517</u> |
| Total Current Liabilities | 1,399,290 | 595,812 | (192,865) | 1,802,237 |
| Notes payable, net of current portion | 237,494 | 522,401 | (522,401) | 237,494 |
| Loans, forgivable loans and accrued interest payable | <u>5,031,138</u> | <u>11,557,034</u> | <u>(2,168,634)</u> | <u>14,419,538</u> |
| Total Liabilities | <u>6,667,922</u> | <u>12,675,247</u> | <u>(2,883,900)</u> | <u>16,459,269</u> |
| Net Assets and Partners' Equity | | | | |
| Net Assets | | | | |
| Unrestricted | 11,106,601 | | | 11,106,601 |
| Temporarily restricted | <u>1,349,515</u> | | | <u>1,349,515</u> |
| Total Net Assets | 12,456,116 | | | 12,456,116 |
| Partners' Equity | | <u>7,021,740</u> | <u>(1,683,233)</u> | <u>5,338,507</u> |
| Total Net Assets and Partners' Equity | <u>12,456,116</u> | <u>7,021,740</u> | <u>(1,683,233)</u> | <u>17,794,623</u> |
| | <u>\$ 19,124,038</u> | <u>\$ 19,696,987</u> | <u>\$ (4,567,133)</u> | <u>\$ 34,253,892</u> |

SOLID GROUND WASHINGTON
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2012

| | <u>Solid Ground</u> | <u>Sand Point LPs</u> | <u>Eliminations</u> | <u>Total</u> |
|---|---------------------|-----------------------|---------------------|---------------|
| Changes in Unrestricted Net Assets and Partners' Equity | | | | |
| Unrestricted public support | | | | |
| Federal contracts and grants | \$ 2,797,035 | | | \$ 2,797,035 |
| State, city, and county contracts and grants | 14,119,418 | | | 14,119,418 |
| Contributions | 664,876 | | | 664,876 |
| United Way of King County | 2,867 | | | 2,867 |
| Private grants | 1,267,095 | | | 1,267,095 |
| Total Unrestricted Public Support | 18,851,291 | | | 18,851,291 |
| Revenue | | | | |
| Fees for services | 857,725 | \$ 1,306,101 | \$ (284,983) | 1,878,843 |
| Investment income | 5,030 | 124 | 93 | 5,247 |
| Other revenue | 479,177 | 27,799 | (216,140) | 290,836 |
| Total Revenue | 1,341,932 | 1,334,024 | (501,030) | 2,174,926 |
| Net assets released from restrictions | 3,549,206 | | - | 3,549,206 |
| Total Unrestricted Public Support and Revenue | 23,742,429 | 1,334,024 | (501,030) | 24,575,423 |
| Expenses | | | | |
| Program services | 19,324,974 | 1,852,200 | (501,123) | 20,676,051 |
| Supporting services | 3,036,519 | - | - | 3,036,519 |
| Total Expenses | 22,361,493 | 1,852,200 | (501,123) | 23,712,570 |
| Change in Unrestricted Net Assets | 1,380,936 | (518,176) | 93 | 862,853 |
| Changes in Temporarily Restricted Net Assets | | | | |
| Contributions | 1,232,382 | | | 1,232,382 |
| United Way of King County | 251,370 | | | 251,370 |
| Private grants | 695,288 | | | 695,288 |
| Net assets released from restrictions | (3,549,206) | - | - | (3,549,206) |
| Change in Temporarily Restricted Net Assets | (1,370,166) | - | - | (1,370,166) |
| Total Change in Net Assets and Partners' Equity | 10,770 | (518,176) | 93 | (507,313) |
| Net Assets and Partners' Equity - Beginning of year | 12,445,346 | 4,967,933 | (53,163) | 17,360,116 |
| Partner Equity Contributions | - | 2,571,983 | (1,630,163) | 941,820 |
| Net Assets and Partners' Equity - End of year | \$ 12,456,116 | \$ 7,021,740 | \$ (1,683,233) | \$ 17,794,623 |

See notes to financial statements.

SOLID GROUND WASHINGTON

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2012

| | | | | Supporting Services | | | Total |
|-----------------------------|----------------------|---------------------|-----------------------------|---------------------|-------------------------|---------------------------------|----------------------|
| | Solid Ground | Sand Point LPs | Total Program Service | Administrative | Resource Development | Total Supporting Services | |
| Salaries and wages | \$ 8,857,134 | \$ 87,634 | \$ 8,944,768 | \$ 1,360,501 | \$ 431,379 | \$ 1,791,880 | \$ 10,736,648 |
| Employee taxes and benefits | 2,803,536 | 21,789 | 2,825,325 | 260,214 | 93,469 | 353,683 | 3,179,008 |
| | <u>11,660,670</u> | <u>109,423</u> | <u>11,770,093</u> | <u>1,620,715</u> | <u>524,848</u> | <u>2,145,563</u> | <u>13,915,656</u> |
| Contracted services | 2,763,857 | 545,571 | 3,309,428 | 233,383 | 111,072 | 344,455 | 3,653,883 |
| Client assistance | 1,391,271 | - | 1,391,271 | - | - | - | 1,391,271 |
| Depreciation | 174,299 | 593,452 | 767,751 | 160,999 | 434 | 161,433 | 929,184 |
| Insurance | 743,229 | 80,243 | 823,472 | 20,225 | 4,571 | 24,796 | 848,268 |
| Repairs and maintenance | 637,199 | 111,068 | 748,267 | 58,528 | 10,546 | 69,074 | 817,341 |
| Utilities | 140,389 | 243,360 | 383,749 | 14,937 | 5,040 | 19,977 | 403,726 |
| Supplies | 299,440 | 28,401 | 327,841 | 51,871 | 11,605 | 63,476 | 391,317 |
| Rent | 404,612 | - | 404,612 | (25,919) | 11,406 | (14,513) | 390,099 |
| Mailing and printing | 129,599 | 2,447 | 132,046 | 60,989 | 29,834 | 90,823 | 222,869 |
| Communication | 96,560 | 5,263 | 101,823 | 16,898 | 4,912 | 21,810 | 123,633 |
| Interest | 12,702 | 84,480 | 97,182 | 14,438 | 10,394 | 24,832 | 122,014 |
| Training | 104,614 | 578 | 105,192 | 9,140 | 2,021 | 11,161 | 116,353 |
| Travel and transportation | 100,876 | 4,500 | 105,376 | 2,173 | 849 | 3,022 | 108,398 |
| Other | 72,492 | 9,856 | 82,348 | 3,705 | (175) | 3,530 | 85,878 |
| Taxes and licenses | 28,029 | 33,558 | 61,587 | 3,432 | 1,021 | 4,453 | 66,040 |
| Advertising | 6,149 | - | 6,149 | 34,483 | 10,742 | 45,225 | 51,374 |
| Dues and subscriptions | 15,683 | - | 15,683 | 7,532 | 7,717 | 15,249 | 30,932 |
| Equipment rental | 22,899 | - | 22,899 | 2,153 | - | 2,153 | 25,052 |
| Fuel | 19,282 | - | 19,282 | - | - | - | 19,282 |
| Total Expenses | <u>\$ 18,823,851</u> | <u>\$ 1,852,200</u> | <u>\$ 20,676,051</u> | <u>\$ 2,289,682</u> | <u>\$ 746,837</u> | <u>\$ 3,036,519</u> | <u>\$ 23,712,570</u> |

SOLID GROUND WASHINGTON
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2012

Cash Flows from Operating Activities

| | |
|---|----------------|
| Cash received from: | |
| Governmental agencies | \$ 16,843,113 |
| Donors | 3,880,641 |
| Service recipients | 2,226,586 |
| Investments | 5,154 |
| Other | 290,929 |
| Cash paid for: | |
| Personnel | (13,871,202) |
| Services and supplies | (8,902,435) |
| Interest | (4,289) |
| Net Cash Provided by Operating Activities | <u>468,497</u> |

Cash Flows from Investing Activities

| | |
|---------------------------------------|--------------------|
| Purchases of investments | (17,434) |
| Purchases of property and equipment | <u>(1,393,650)</u> |
| Net Cash Used by Investing Activities | <u>(1,411,084)</u> |

Cash Flows from Financing Activities

| | |
|---|-----------------|
| Partner equity contributions | 941,820 |
| Repayments on notes payable | <u>(19,695)</u> |
| Net Cash Provided by Financing Activities | <u>922,125</u> |

Changes in Cash and Cash Equivalents (20,462)

Cash - beginning of year 4,272,484

Cash - end of year \$ 4,252,022

SOLID GROUND WASHINGTON
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2012

Reconciliation of Changes in Net Assets and Partners' Equity to Net Cash Flows from Operating Activities

| | |
|---|-------------------|
| Change in net assets and partners' equity | \$ (507,313) |
| Adjustments to reconcile change in net assets and partners' equity to net cash provided by operating activities | |
| Depreciation | 929,184 |
| Accrued interest on forgivable loans | 117,725 |
| Forgiveness of debt | (64,320) |
| Change in assets and liabilities | |
| Grants receivable | (73,340) |
| Promise to give | 187,593 |
| Other receivables | 347,743 |
| Other assets | 253,607 |
| Restricted cash and cash equivalents | (256,176) |
| Accounts payable | (510,660) |
| Accrued expenses | <u>44,454</u> |
| Net Cash Provided by Operating Activities | <u>\$ 468,497</u> |

SOLID GROUND WASHINGTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Operations - Solid Ground Washington (Solid Ground or the Organization) 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:

Housing: We operate a continuum of services and resources to help people stay in their homes, or obtain and stay in stable housing, including counseling and financial support to prevent homelessness; housing and supportive services to regain stability and thrive.

Hunger action: We increase access to food and nutritional resources for low-income communities and support Seattle's emergency food system.

Transportation: We provide door-to-door specialized transportation to elders and people living with disabilities who cannot access fixed-route transportation, as well as a shuttle 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.

National and volunteer services: We operate one of Washington State's largest AmeriCorps and VISTA programs which support literacy, community-building, and anti-poverty program county-wide.

Principles of consolidation

The financial statements consolidate the assets, liabilities, and activities of Solid Ground and Sand Point Community Connections, LLC (SPCC); Sand Point Housing Associates I, LP; Sand Point Site B Stage 1, LP; and Sand Point Phase 2, LP. Solid Ground is the sole member of SPCC and SPCC is the sole general partner in each 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

In accordance with financial accounting standards, Solid Ground reports information regarding its financial position and activities according to three classes of net assets, based on the existence and nature of donor restrictions:

Unrestricted Net Assets - Support received without donor restrictions is considered unrestricted.

Temporarily Restricted Net Assets - Support received subject to a donor-imposed time restriction or stipulation for a particular purpose is considered temporarily restricted.

SOLID GROUND WASHINGTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

When donor restrictions are satisfied or expire, temporarily restricted net assets are reclassified to unrestricted net assets. Temporarily restricted net assets at December 31, 2012 consist of the following:

| | |
|----------------------------|---------------------|
| Sandpoint Capital Campaign | \$ 800,622 |
| Other programs | <u>548,893</u> |
| | <u>\$ 1,349,515</u> |

Permanently Restricted Net Assets - Support received in the form of endowment or sustaining funds are considered permanently restricted. In accordance with purposes established by donors, only the income from such funds may be expended. Accordingly, such income is recognized as an increase in unrestricted or temporarily restricted net assets based on donor stipulations. At December 31, 2012, Solid Ground had no net assets that were permanently restricted.

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:

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.

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.

SOLID GROUND WASHINGTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2012 are as follows:

| | |
|---------------------------------------|---------------------|
| Board Established Reserve | |
| Headquarters Depreciation Fund | \$ 602,713 |
| Unemployment Compensation Trust | 437,555 |
| Broadview | |
| Broadview Operating Reserve | 190,202 |
| Broadview Replacement Reserve | 75,145 |
| Bethlehem House | |
| Operating Reserve | 24,389 |
| Replacement Reserve | 47,149 |
| Sand Point Community Connections, LLC | |
| Youth Home Replacement Reserve | 61,506 |
| Sand Point Reserve | 391,097 |
| Sand Point Housing Associates I, LP | |
| Security Deposits | 12,270 |
| Operating Reserve | 229,269 |
| Replacement Reserve | 153,137 |
| Sand Point Site B Stage 1, LP | |
| Site B Operating Fund | 69,641 |
| Security Deposits | 28,400 |
| Operating Reserve | 315,152 |
| Replacement Reserve | 190,275 |
| | <u>\$ 2,827,900</u> |

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, 2012, 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 revenues.

SOLID GROUND WASHINGTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2012:

| | |
|--------------------------------------|---------------------|
| Due in less than one year | \$ 570,752 |
| Due in one to five years | <u>645,000</u> |
| | 1,215,752 |
| Less: Discount to net present value | <u>(89,378)</u> |
| Total Unconditional Promises to Give | <u>\$ 1,126,374</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. At December 31, 2012, property and equipment consisted of the following:

| | <u>Estimated Useful Lives</u> | |
|-------------------------------|-----------------------------------|---------------------|
| Building and improvements | 20 - 40 years | \$30,394,066 |
| Furniture and equipment | 2-7 years | 796,652 |
| Vehicles | 7 years | 160,611 |
| Leasehold improvements | Lease term | <u>90,827</u> |
| | | 31,442,156 |
| Less accumulated depreciation | | <u>(10,534,626)</u> |
| | | 20,907,530 |
| Land | | 773,486 |
| Construction in progress | | <u>1,387,890</u> |
| | | <u>\$23,068,906</u> |

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 there from is subject to governmental regulation.

Revenue

Revenue is defined as income earned through fee-for-service agreements that are paid for by the recipient of the service provided and rental subsidies paid for by third parties.

SOLID GROUND WASHINGTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 year ended December 31, 2012, no such adjustments were made.

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 \$375,697 for the year ended December 31, 2012.

Solid Ground reports gifts of property and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as temporarily restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, Solid Ground reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

During the year ended December 31, 2012, Solid Ground received non-cash donations of \$17,823 for facilities and \$27,310 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 155,000 volunteer service hours for the year ended December 31, 2012. In addition, another 272,000 volunteer service hours were coordinated in 2012 by Solid Ground through its Volunteer Programs to assist others in the community.

Allocation of expenses

Certain expenses are allocated between various programs and supporting services. Allocated expenses include rent, utilities, and building depreciation, which are allocated based on square footage used, and salaries, and general expenses, which are allocated based on employee hours incurred.

SOLID GROUND WASHINGTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 year ended December 31, 2012. 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 financial statements for the partnerships since taxable income or loss passes through to, and is reportable by, the partners or members individually.

Solid Ground files tax returns in the U.S. federal jurisdiction and is no longer subject to income tax examinations by taxing authorities for years before 2008 for its federal filings.

NOTE B - INVESTMENTS

The fair values of Solid Ground's investments are estimated by a third party using quoted prices in active markets for identical or similar investments. At December 31, 2012, short-term investments are classified within the valuation hierarchy and consist of the following:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|-------------------------|-------------------|----------------|----------------|-------------------|
| Certificates of deposit | \$ 110,346 | \$ - | \$ - | \$ 110,346 |
| Money market funds | <u>27,657</u> | <u>-</u> | <u>-</u> | <u>27,657</u> |
| | <u>\$ 138,003</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 138,003</u> |

NOTE C - LINE OF CREDIT

Solid Ground maintains a revolving line of credit with maximum borrowings of \$600,000 bearing interest at 3.0% plus the one-month LIBOR rates as of December 31, 2012 and 2011. The line is secured by Solid Ground's assets and matures on August 31, 2013. There was no outstanding balance on the line as of December 31, 2012.

SOLID GROUND WASHINGTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

NOTE D - NOTES PAYABLE

At December 31, 2012, notes payable consist of the following:

| | |
|---|-------------------|
| Note payable to the State of Washington Department of Community Development, due in annual installments of \$12,500, non-interest bearing, secured by property, due January 2033. | \$ 250,000 |
| Note payable to financial institution, collateralized by real estate, interest at 4.87%, principal and interest payments of \$1,752 required monthly, final payment due March 2013. | <u>265,011</u> |
| | 515,011 |
| Less current portion | <u>277,517</u> |
| | <u>\$ 237,494</u> |

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

| | |
|------------|-------------------|
| 2013 | \$ 277,517 |
| 2014 | 12,500 |
| 2015 | 12,500 |
| 2016 | 12,500 |
| 2017 | 12,500 |
| Thereafter | <u>187,494</u> |
| | <u>\$ 515,011</u> |

NOTE E - FORGIVABLE LOANS AND ACCRUED INTEREST PAYABLE

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 Lender). 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, 2012, the loan balance, including accrued interest payable, totaled \$1,896,446.

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. Accrued interest payable will be forgiven beginning in the year 2012 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.

SOLID GROUND WASHINGTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

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

Headquarters Loan - During 2001, construction of Solid Ground's new headquarters was partially financed with loan proceeds from the City of Seattle, Department of Housing and Human Services. The loan is non-interest bearing, is collateralized by a deed of trust on the real property, and matures in the year 2018. At December 31, 2012, the outstanding loan balance totaled \$800,000.

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 on the maturity date. 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.

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, is collateralized by a deed of trust on the real property, and matures in 2051. The forgivable of \$182,913 loan 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, 2012, the loan balances (including accrued interest payable) totaled \$368,667.

Under the terms of the Bethlehem House loan agreements, 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 Lender's pro rata share of the appreciated value of the property.

Francis Street Property - On April 8, 2008, Solid Ground closed on the purchase of a residential four-plex building, known as Francis Street, for \$696,000. The property was financed through a \$296,000 mortgage with HomeStreet Bank, which is a five year note at 4.87% (see Note D), and the remaining balance of \$400,000 was financed with loan proceeds from Seattle Housing Authority. Beginning in April 2008, the loan from the Seattle Housing Authority is forgiven at \$20,000 per year and 3% interest forgiven for each year, as long as Solid Ground does not sell or use the property for an unauthorized purpose. At December 31, 2012, the loan balance from the Seattle Housing Authority totaled \$320,000.

Sand Point - Sand Point Community Connections, LLC (SPCC) has two forgivable loans from the State of Washington Department of Community, Trade and Economic Development and from the City of Seattle.

SOLID GROUND WASHINGTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

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

The forgivable loan of \$744,001 from the State of Washington is non-interest bearing, is collateralized by a deed of trust on the real property, and matures in 2049. The forgivable loan of \$762,507 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 2049. At December 31, 2012 and 2011, the loan balances (including accrued interest payable) totaled \$1,608,298.

Sand Point Housing Associates I, LP has four forgivable loans, two from the State of Washington Department of Community, Trade and Economic Development and two from the City of Seattle. The forgivable loans of \$1,532,810 from the State of Washington are non-interest bearing, are collateralized by a deed of trust on the real property, and mature in 2042. The forgivable loans of \$1,799,701 from the City of Seattle bear interest at 1%, are collateralized by a deed of trust on the real property, and mature in the year 2049. At December 31, 2012, the loan balances (including accrued interest payable) totaled \$3,570,491.

Sand Point Site B Stage 1, LP has two forgivable loan from the State of Washington Department of Community, Trade and Economic Development and from the City of Seattle. The forgivable loan of \$2,500,000 from the State of Washington is non-interest bearing, is collateralized by a deed of trust on the real property, and matures in 2061. The forgivable loans of \$3,235,831 from the City of Seattle bear interest at 1%, are collateralized by a deed of trust on the real property, and mature in the year 2042. At December 31, 2012, the loan balances (including accrued interest payable) totaled \$5,817,909.

NOTE F - NONCONTROLLING INTEREST

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, 2012 | \$ 53,163 | \$ 4,914,770 | \$ 4,967,933 |
| Change in net assets and Partners' equity | (93) | (518,083) | (518,176) |
| Partners' capital contributions | 1,630,163 | 941,820 | 2,571,983 |
| Partners' withdrawals | - | - | - |
| Balance December 31, 2012 | <u>\$ 1,683,233</u> | <u>\$ 5,338,507</u> | <u>\$ 7,021,740</u> |

NOTE G - RETIREMENT PLAN

Solid Ground 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 WASHINGTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

NOTE G - RETIREMENT PLAN (Continued)

Solid Ground contributes 3% of eligible employee's gross income to the Plan each month. 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 and regardless of the number of hours worked.

For the year ended December 31, 2012, Solid Ground contributed \$293,482 in total to the plans.

NOTE H - COMMITMENTS

Rental Payment Commitments - Solid Ground has noncancelable operating lease agreements for office space, operating facilities, and equipment, expiring on various dates through 2017. Monthly payments range from \$170 to \$12,000. Generally, the leases provide that insurance and maintenance are the responsibility of Solid Ground. Total rent expense for lease agreements for the year ended December 31, 2012 was \$390,099.

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

| Year Ending December 31, | |
|--------------------------|---------------------|
| 2013 | \$ 360,078 |
| 2014 | 357,515 |
| 2015 | 266,302 |
| 2016 | 78,510 |
| 2017 | 57,787 |
| Thereafter | <u>47,142</u> |
| | <u>\$ 1,167,334</u> |

Rental Income Commitments - A portion of the office space owned by Solid Ground is leased to two tenants under non-cancelable operating leases, both expiring in 2015. Monthly payments under these leases range from \$3,500 - \$3,900. Total rental income from these tenants for the year ended December 31, 2012 was \$93,431. Rental income under operating leases for future years is as follows:

| Year Ending December 31, | |
|--------------------------|-------------------|
| 2013 | \$ 97,423 |
| 2014 | 98,397 |
| 2015 | <u>99,381</u> |
| | <u>\$ 295,201</u> |

SOLID GROUND WASHINGTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

NOTE I- 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.

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.

The Organization 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 the Organization's activities.

Support and Revenue - For the year ended December 31, 2012, 48% of Solid Ground's total support and revenue was from one funding source. For the year ended December 31, 2012, 53% of Solid Ground's total outstanding receivable balance was from the same funding source. For the years ended December 31, 2012, 45% of Solid Ground's total outstanding pledge receivable balance was from one funding source.

NOTE J - 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," which is managed in accordance with the same policies as the endowment, except a supermajority of 75% of the board may choose to exceed the spending policies that govern the endowment. While the board has some discretion over the use of the "board designated endowment," it consists of amounts that are intended to be held in perpetuity by the board. At December 31, 2012, the Board has designated reserves of \$2,500 for the endowment.

NOTE K - PRIOR PERIOD RESTATEMENT

During 2012, management reassessed the terms of certain government grants awards used to purchase property and equipment between 1998 and 2010. Although the terms of the grants require certain ongoing compliance, management determined that they did not meet the definition of a contribution and, therefore, should not be shown as temporarily restricted net assets. As a result of this reassessment, \$1,114,367 was reclassified from temporarily restricted net assets to unrestricted net assets as of December 31, 2011.

SOLID GROUND WASHINGTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

NOTE L - SUBSEQUENT EVENTS

Management has evaluated events occurring subsequent to December 31, 2012 through June 6, 2013, 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, 2012, including the estimates inherent in the processing of financial statements. The following event arose after December 31, 2012 relating to conditions that did not exist as of December 31, 2012:

On June 5, 2013, Solid Ground closed on the refinancing of the loan for Francis Street. The property was refinanced through a mortgage for \$263,000 with HomeStreet Bank, which is a ten year note at 4.50%. The proposed note will be amortized over 15 years with a ten year call and a 5 year adjustable period.

SUPPLEMENTARY INFORMATION

SOLID GROUND WASHINGTON

SCHEDULE OF STATE FINANCIAL ASSISTANCE

YEAR ENDED DECEMBER 31, 2012

| Grantor | Contract | State |
|--|-----------------|---------------------|
| <u>Program Title</u> | <u>Number</u> | <u>Expenditures</u> |
| Washington State Department of Agriculture | | |
| Hunger Action Center | S11-32101-025 | \$ 72,886 |
| | K681 | <u>143,720</u> |
| | | 216,606 |
| Washington State Department of Social & Health Services | | |
| Broadview Emergency Shelter | 1212-53288 | 37,063 |
| | 1112-28193 | <u>21,201</u> |
| | | 58,264 |
| Washington Housing Finance Commission | | |
| Housing Counseling | FY2012FFA | 7,869 |
| | FY2012FFA | 22,346 |
| | FY2012FFA | 57,858 |
| | FY2012FFA | <u>6,180</u> |
| | | 94,253 |
| Washington Department of Commerce | | |
| Broadview Transitional Housing | S131108-043 | 12,771 |
| | S12-31108-44 | 7,600 |
| | 533329-III | 26,105 |
| | 533329-III | <u>63,895</u> |
| | | 110,371 |
| Family Shelter | 533329-IV | 66,000 |
| HPRP | 533329-VII | 42,364 |
| Journey Home | 533329-V | 124,186 |
| Housing Stability | 533329-VI | 88,691 |
| Community Voice Mail | S-11-32102-05 | 19,080 |
| | S-12-32102-05 | <u>21,630</u> |
| | | 40,710 |
| Sand Point Families | 533329-VIII | 25,409 |

SOLID GROUND WASHINGTON
 SCHEDULE OF STATE FINANCIAL ASSISTANCE
 YEAR ENDED DECEMBER 31, 2012

| Grantor | Contract | State |
|--|-----------------|---------------------|
| <u>Program Title</u> | <u>Number</u> | <u>Expenditures</u> |
| Washington Department of Commerce (Continued) | | |
| RSVP | NO CONTRACT # | 7,605 |
| | NO CONTRACT # | <u>10,907</u> |
| | | 18,512 |
| LTCOP | NO CONTRACT # | 45,303 |
| | NO CONTRACT # | <u>21,337</u> |
| | | 66,640 |
| Administration | S12-32103-227 | <u>26,745</u> |
| Total State Financial Assistance | | <u>\$ 978,751</u> |

OMB A-133 SUPPLEMENTARY INFORMATION

SOLID GROUND WASHINGTON

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2012

| Federal Grantor | Contract Number | CFDA Number | Federal Expenditures |
|---|------------------------|--------------------|-----------------------------|
| <i>Pass-through Grantor</i> | | | |
| "Program Title" | | | |
| Department of Agriculture | | | |
| "Community Food Projects" | 2009-33800-20178 | 10.225 | \$ 99,442 |
| <i>King County Department of Public Health</i> | | | |
| "State Administrative Matching Grants for Supplemental Nutrition Assistance Programs" | CHS2418 | 10.561 | 154,276 |
| Department of Housing and Urban Development | | | |
| "Housing Counseling Assistance Program" | HC120922001 | 14.169 | 30,000 |
| "Housing Counseling Assistance Program" | CD120921002 | 14.169 | <u>27,423</u> |
| | | | 57,423 |
| <i>King County Community Service Division</i> | | | |
| "Community Development Block Grants/Entitlement Grants" | 527896-III | 14.218 | 260,691 |
| <i>King County Community Service Division</i> | | | |
| "Emergency Solutions Grant Program" | DA12-1106 | 14.231 | 160,000 |
| "Emergency Solutions Grant Program" | 527896-IV | 14.231 | <u>59,427</u> |
| | | | 219,427 |
| "Supportive Housing Program" | WA01B600020 | 14.235* | 82,016 |
| "Supportive Housing Program" | WA01B500019 | 14.235* | 67,363 |
| <i>City of Seattle Human Services Department</i> | | | |
| "Supportive Housing Program" | DA12-5526 | 14.235* | 522,532 |
| "Supportive Housing Program" | DA11-1555 | 14.235* | 26,642 |
| "Supportive Housing Program" | DA12-1555 | 14.235* | <u>185,232</u> |
| | | | 883,785 |
| <i>King County Community Service Division</i> | | | |
| "ARRA-Homeless Prevention and Rapid Re-Housing Program" | D39490 | 14.257* | 91,289 |
| "ARRA-Homeless Prevention and Rapid Re-Housing Program" | D38894D | 14.257* | <u>281,609</u> |
| | | | 372,898 |
| <i>King County Housing Authority</i> | | | |
| "Moving to Work Demonstration Program" | 10157 | 14.881 | 38,622 |

* Denotes major program

SOLID GROUND WASHINGTON

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2012

| Federal Grantor | Contract Number | CFDA Number | Federal Expenditures |
|--|------------------------|--------------------|-----------------------------|
| <i>Pass-through Grantor</i> | | | |
| <u>"Program Title"</u> | | | |
| Department of Justice | | | |
| <i>Washington State Department of Social and Health Services</i> | | | |
| "Crime Victim Assistance" | 1112/28193 | 16.575 | 61,499 |
| <i>Washington State Department of Commerce</i> | | | |
| "Crime Victim Assistance" | F12-31119-736 | 16.575 | 3,708 |
| "Crime Victim Assistance" | S11-31119-808 | 16.575 | 4,135 |
| | | | <u>69,342</u> |
| Department of Health and Human Services | | | |
| <i>Washington State Department of Commerce</i> | | | |
| "Community Services Block Grant" | F12-32100-027 | 93.569 | 186,894 |
| <i>Washington State Department of Social and Health Services</i> | | | |
| "Family Violence Prevention and Services" | 1212 53288 | 93.671 | 42,101 |
| <i>Environmental Coalition of South Seattle</i> | | | |
| "ARRA-Prevention and Wellness-Communities Putting Prevention to Work" | 1U58DP002423-01 | 93.724 | 792 |
| Corporation for National and Community Service | | | |
| "Volunteers in Service to America" | 07VSP | 94.013 | 12,045 |
| "Retired and Senior Volunteer Program" | 011VSP | 94.002 | 124,193 |
| <i>Washington State Corporation for National and Community Service</i> | | | |
| "AmeriCorps" | K951 | 94.006 | 130,469 |
| <i>Washington State Employment Security Department</i> | | | |
| "AmeriCorps" | K2564 | 94.006 | 16,815 |
| "AmeriCorps" | K1807 | 94.006 | 72,970 |
| | | | <u>220,254</u> |
| Department of Homeland Security | | | |
| "Emergency Food and Shelter Board Program" | 889000-014 | 97.024 | 54,850 |
| | | | <u>\$ 2,797,035</u> |

* Denotes major program

SOLID GROUND WASHINGTON

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2012

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B - SUBRECIPIENTS

| <u>"Program Title"</u> | <u>CFDA Number</u> | <u>Provided to Subrecipients</u> |
|---|------------------------|--------------------------------------|
| "Community Food Projects" | 10.225 | \$ 51,417 |
| "Community Development Block Grants/Entitlement Grants" | 14.218 | \$ 212,812 |
| "Moving to Work Demonstration Program" | 14.881 | \$ 33,000 |
| "Emergency Food and Shelter Board Program" | 97.024 | \$ 37,418 |

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

June 6, 2013

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 financial statements of Solid Ground Washington, which comprise the consolidated statement of financial position as of December 31, 2012, and the related consolidated statements of activities, 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, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the 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 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be a material weakness.

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 Solid Ground's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as item 2012-01 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Solid Ground Washington's 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

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133

June 6, 2013

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 Circular A-133 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, 2012. Solid Ground Washington's major federal programs are identified in the summary of auditor's 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

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 of compliance, we considered Solid Ground Washington's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 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 may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Jacobson Jarvis & Co, PLLC

SOLID GROUND WASHINGTON

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED DECEMBER 31, 2012

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the consolidated financial statements of Solid Ground Washington.
2. A significant deficiency relating to the financial statements are reported in the "Independent Auditor's Report Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*." The significant deficiency described as item 2012-01 was deemed to be a material weakness.
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 award programs are reported in the "Report on Compliance with Requirements Applicable to each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133."
5. The auditor's report on compliance for the major federal award program for Solid Ground Washington expresses an unqualified 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 programs tested as major were CFDA No. 14.235 "Supportive Housing Program," and CFDA No. 14.257 "ARRA-Homeless Prevention and Rapid Re-Housing Program."
8. The threshold used for distinguishing between Type A and B programs was \$300,000.
9. Solid Ground Washington was determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

2012-01 External Financial Statement Preparation

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Generally Accepted Accounting Principles (GAAP). During the audit process, two material audit adjustments were made to the manner in which unusual entries were recorded by accounting staff. Solid Ground's accounting staff lacked the GAAP expertise to analyze and correctly record the unusual transactions, and management lacked sufficient expertise to detect the error. We recommend that Solid Ground build additional GAAP expertise within its organization and consult as necessary with qualified experts.

SOLID GROUND WASHINGTON

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED DECEMBER 31, 2012

B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

Views of a Responsible Official: Management accepts the responsibility to fairly present financial statements. Unusual transactions as were identified in this year will be analyzed with an increased level of scrutiny and discussed when necessary with qualified experts.

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

None