



REPORT OF INDEPENDENT AUDITORS
AND CONSOLIDATED FINANCIAL STATEMENTS

NORTHWEST CENTER

December 31, 2020 and 2019

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Report of Independent Auditors

To the Board of Directors
Northwest Center

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Northwest Center, which comprise the consolidated statements of financial position as of December 31, 2020 and 2019, and the related consolidated statements of activities, cash flows and functional expenses 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. Those standards require that we plan and perform the audits 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 above present fairly, in all material respects, the financial position of Northwest Center as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Moss Adams LLP

Seattle, Washington

April 30, 2021

Northwest Center Consolidated Statements of Financial Position

ASSETS	December 31,	
	2020	2019
CURRENT ASSETS		
Cash and cash equivalents	\$ 868,085	\$ 1,729,525
Contractual cash deposits	325,021	-
Accounts receivable, net	9,214,449	9,675,838
Inventory, net	164,942	-
Other current assets	307,590	723,867
Total current assets	10,880,087	12,129,230
INVESTMENTS	12,862,332	12,347,409
PROPERTY and EQUIPMENT, net	3,551,626	2,329,454
GOODWILL, net	6,551,332	-
Total assets	\$ 33,845,377	\$ 26,806,093
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 1,138,306	\$ 1,031,963
Accrued expenses	2,789,082	2,445,499
Deferred revenue	94,646	47,050
Line of credit	1,200,000	1,000,000
Current portion of long-term debt	908,607	177,159
Current portion of Paycheck Protection Program Loan	718,774	-
Current portion of deferred gain on disposal of property	174,473	174,473
Total current liabilities	7,023,888	4,876,144
LONG-TERM LIABILITIES		
Long-term debt, less current portion	4,169,993	-
Paycheck Protection Program Loan, less current portion	2,948,033	-
Contingent Obligations	1,881,414	-
Deferred gain on disposal of property, less current portion	668,814	843,287
Total long-term liabilities	9,668,254	843,287
Total liabilities	16,692,142	5,719,431
NET ASSETS		
Without donor restrictions	13,832,235	17,765,662
Board-designated reserve fund	3,321,000	3,321,000
Total without donor restrictions	17,153,235	21,086,662
Total with donor restrictions	-	-
Total net assets	17,153,235	21,086,662
Total liabilities and net assets	\$ 33,845,377	\$ 26,806,093

Northwest Center

Consolidated Statements of Activities

	Years Ended December 31,	
	2020	2019
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
Revenues		
Contract revenue	\$ 35,556,045	\$ 35,494,658
Sale of donated merchandise	2,875,503	6,305,897
Government fees for services	6,715,092	7,671,247
Tuition	2,072,367	2,267,449
Contributions	1,441,799	907,990
Recycling and other	399,401	209,893
Net assets released from donor restrictions	-	20,000
Total revenues	<u>49,060,207</u>	<u>52,877,134</u>
Expenses		
Program services		
Social enterprises	28,831,692	29,545,676
Donated merchandise program	4,632,536	5,308,532
Employment services	4,617,679	4,900,334
Child and family services	<u>7,666,533</u>	<u>7,254,637</u>
Total program services	45,748,440	47,009,179
Supporting services	<u>8,333,998</u>	<u>7,066,913</u>
Total expenses	<u>54,082,438</u>	<u>54,076,092</u>
(Decrease) Increase in net assets from operations	(5,022,231)	(1,198,958)
Net Loss from discontinued operations	(20,058)	(1,005,395)
Amortization of Intangibles	(57,780)	-
Amortization of deferred gain	172,470	174,473
Investment income (loss), net	793,530	1,810,683
Other income (expense)	<u>200,642</u>	<u>243,817</u>
Increase (Decrease) in net assets without donor restrictions	<u>(3,933,427)</u>	<u>24,620</u>
CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS		
Net assets released from donor restrictions	-	(20,000)
Change in net assets with donor restrictions	-	(20,000)
Increase (Decrease) in net assets	<u>(3,933,427)</u>	<u>4,620</u>
NET ASSETS, beginning of year	<u>21,086,662</u>	<u>21,082,042</u>
NET ASSETS, end of year	<u>\$ 17,153,235</u>	<u>\$ 21,086,662</u>

Northwest Center
Consolidated Statements of Cash Flows

	Years Ended December 31,	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (Decrease) in net assets	\$ (3,933,427)	\$ 4,620
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation and amortization	884,883	806,473
Loss (gain) on disposal of property and equipment	7,178	97,388
Realized and unrealized (gain) loss on investments	(514,923)	(1,834,316)
Changes in operating assets and liabilities		
Accounts and pledges receivable, net	461,389	(1,442,721)
Inventory, net	(164,942)	400,144
Other assets	416,277	(57,504)
Accounts payable	106,343	162,568
Accrued expenses and liabilities	533,884	117,899
Deferred revenue	47,596	3,312
Deferred gain on sale of building	(174,473)	(174,472)
	<u>(2,330,215)</u>	<u>(1,916,609)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(1,004,453)	(612,459)
Cash paid for acquisition	(5,970,000)	-
	<u>(6,974,453)</u>	<u>(612,459)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings from line of credit	200,000	1,000,000
Borrowing from SBA	3,666,807	-
Borrowings on long-term debt obligations	5,116,624	-
Payments on long-term debt obligations	(215,182)	(382,127)
	<u>8,768,249</u>	<u>617,873</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(536,419)	(1,911,195)
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>1,729,525</u>	<u>3,640,720</u>
End of year	<u>\$ 1,193,106</u>	<u>\$ 1,729,525</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	<u>\$ 85,212</u>	<u>\$ 8,228</u>

Northwest Center Consolidated Statements of Functional Expenses

Year Ended December 31, 2020	Total Program Services	Supporting Services		Total Supporting Services	Total Expenses
		Administration	Philanthropy		
Salaries and benefits	\$ 36,894,299	\$ 4,308,400	\$ 486,948	\$ 4,795,348	\$ 41,689,648
Supplies	1,427,845	86,163	73,460	159,623	1,587,467
Facility expenses	3,799,048	1,113,509	1,785	1,115,294	4,914,342
Professional fees and contract services	1,674,799	1,251,139	85,507	1,336,646	3,011,445
Sales expense	901,180	425,968	7,256	433,224	1,334,404
Licenses, fees, and taxes	65,357	155,193	8,452	163,646	229,003
Computer software and equipment rental	196,101	193,361	2,351	195,712	391,814
Other	4,833	7,692	70	7,762	12,595
Total nonpersonnel expenses	8,069,163	3,233,025	178,881	3,411,906	11,481,068
Total expenses before interest expense and depreciation	44,963,462	7,541,425	665,829	8,207,254	53,170,716
Interest expense	13,989	71,224	-	71,224	85,212
Depreciation	770,989	44,875	10,645	55,520	826,510
Total functional expenses	<u>\$ 45,748,440</u>	<u>\$ 7,657,524</u>	<u>\$ 676,474</u>	<u>\$ 8,333,998</u>	<u>\$ 54,082,438</u>

Year Ended December 31, 2019	Total Program Services	Supporting Services		Total Supporting Services	Total Expenses
		Administration	Philanthropy		
Salaries and benefits	\$ 36,887,270	\$ 3,706,019	\$ 465,933	\$ 4,171,953	\$ 41,059,223
Supplies	1,937,849	105,028	67,173	172,201	2,110,050
Facility expenses	3,907,198	404,987	870	405,857	4,313,055
Professional fees and contract services	2,205,877	1,207,735	85,970	1,293,706	3,499,583
Sales expense	1,161,546	327,619	193,102	520,721	1,682,268
Licenses, fees, and taxes	65,395	259,370	9,083	268,453	333,848
Computer software and equipment rental	117,773	159,938	164	160,102	277,875
Other	10,718	18,425	695	19,120	29,838
Total nonpersonnel expenses	9,406,357	2,483,101	357,058	2,840,159	12,246,516
Total expenses before interest expense and depreciation	46,293,627	6,189,121	822,991	7,012,112	53,305,739
Interest expense	8,264	(35)	-	(35)	8,229
Depreciation	707,289	53,934	902	54,836	762,125
Total functional expenses	<u>\$ 47,009,180</u>	<u>\$ 6,243,020</u>	<u>\$ 823,893</u>	<u>\$ 7,066,913</u>	<u>\$ 54,076,093</u>

Northwest Center

Notes to Consolidated Financial Statements

Note 1 – Organization and Summary of Significant Accounting Policies

Principles of consolidation – The accompanying consolidated financial statements include the accounts of Northwest Center (NWC) and Northwest Center Services (NWCS). Both are Washington not-for-profit corporations and qualify as 501(c)(3) tax exempt corporations by the IRS. They are managed by the same Board of Directors and are collectively referred to as NWC or the Organization. All significant intercompany transactions and accounts have been eliminated in consolidation.

Organization – Since 1965, Northwest Center has been a leader in advancing equal opportunities for children and adults with disabilities. NWC’s mission is to promote the growth, development, and independence of persons with disabilities through programs of therapy, education, and work opportunity.

NWC seeks to create and support an inclusive community where people of all abilities can fully participate by learning and working together. NWC’s programs pioneer Early Supports for Infants and Toddlers (formerly known as early intervention therapy) for babies at home, innovate inclusive early learning for kids of all abilities, find new ways to support young people transitioning from school to the working world, and tirelessly support individuals seeking to gain employment as meaningful to them as it is valuable to their employer.

NWC’s social enterprise business model is uniquely powerful. A portfolio of commercial businesses provides best-in-class services, employ an inclusive workforce, and generate sustainable funding. This frees the Organization to test new ideas, make bold decisions, and invest philanthropy dollars directly into our mission of inclusion.

In December 2020, the Organization, acting through Northwest Center Services, completed the acquisition of Lithtex NW, LLC. With the addition of this new social enterprise, the Organization expanded into the commercial print industry with an intent to also diversify employment opportunities for people with disabilities within the Organization’s own social enterprise portfolio. The Organization intends to opportunistically acquire companies that offer both a rewarding financial opportunity and serve its mission-driven purpose. Additionally, the Organization may seek to sell and divest social enterprises when both the profit and social goals for the enterprise are mature. See Note 12 for additional detail.

Basis of presentation – The consolidated financial statements of the Organization have been prepared on the accrual basis of accounting.

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

Net assets without donor restrictions – Net assets that are not subject to donor-imposed stipulations. Included in this balance are board-designated reserve funds that have been reserved for future use as determined by the Board of Directors. Board-designated funds included in net assets without donor restrictions totaled \$3,321,000 and \$3,321,000 at December 31, 2020 and 2019, respectively.

Net assets with donor restrictions – Net assets subject to donor-imposed stipulations that may or will be met by actions of the Organization and/or the passage of time. These amounts principally consist of funds designated for specific mission programs.

Revenues are reported as increases in net assets without donor restrictions unless the use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law.

Northwest Center

Notes to Consolidated Financial Statements

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

Contributions – Contributions, which include unconditional promises to give, are recognized as revenues in the period received. Donor-restricted contributions for which restrictions are met in the same reporting period are reported as support without donor restrictions. Expirations of donor restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) result in the reclassification of net assets with donor restrictions to net assets without donor restrictions and are reported in the consolidated statements of activities as net assets released from donor restrictions. Restrictions on gifts to acquire long-lived assets are considered fulfilled in the period in which the assets are acquired or placed in service. Contributions of noncash assets are recognized at their estimated fair market value on the date of contribution. Contributions to be collected in future years are recorded at fair value when the promise is made based on a discounted cash flow model. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

A number of volunteers donate time in the furtherance of the Organization's objectives. However, in accordance with United States Generally Accepted Accounting Principles (GAAP), the value of these services is not recognized in these consolidated financial statements because they do not meet certain specific criteria.

Cash – The Organization maintains its cash with financial institutions, and, at times, balances may exceed federally insured limits.

Contractual cash deposits – Contractual cash deposits are comprised of \$75,000 deposited in a certificate of deposit which acts as collateral for the Organization's primary corporate credit card program and \$250,000 deposited into an interest-bearing money market account, the Debt Service Reserve account, which acts as partial security for the \$4,500,000 term loan with WaFd Bank. The credit card program can be canceled at any time and the collateral returned to the Organization. The amount and use of funds in the Debt Service Reserve account are subject to the terms of the Debt Service Reserve Agreement entered into with WaFd Bank in December 2020 and generally requires a minimum balance of \$250,000 be maintained over the five year term of the loan. In the event that the organization fails to comply with the Fixed Charge Covenant ("FCC") on the Term Loan, the Organization will not be in default if it makes an additional deposit into the Debt Service Reserve account, the amount of deposit would be dictated by the length of time until compliance with the FCC is met. If, at any time, the Organization meets the FCC compliance level for four consecutive quarters, the minimum balance in the reserve is reset to \$250,000.

Accounts receivable – Accounts receivable are primarily due from performing services under contracts with corporations and governmental agencies. The Organization considers accounts over 30 days old to be past due. The Organization provides for estimated uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Uncollectible amounts are written off when management has exhausted collection efforts. The Organization typically does not require collateral for its accounts receivable. The allowance for doubtful accounts was \$285,000 and \$297,000 at December 31, 2020 and 2019.

Inventory – Inventory is stated at the lower of average cost or market.

Northwest Center

Notes to Consolidated Financial Statements

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

Property and equipment, depreciation – Property and equipment are stated at cost, if purchased, or at fair market value at the date of receipt, if donated, unless the estimated future undiscounted cash flows expected to result from either the use of the asset or its eventual disposition is less than its carrying amount (in which case an impairment loss is recognized based on the fair value of the asset). The Organization's policy is to capitalize assets with a cost or donated value greater than \$3,500 and a useful life in excess of one year. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are depreciated either over the anticipated term of the lease or the estimated life of the improvement, whichever is shorter.

Goodwill, net – Goodwill was recorded as a result of the acquisition of Lithtex NW's assets on December 14, 2020. Based on ASU 2019-06, Northwest Center elected the accounting alternative to amortize goodwill on a straight-line basis. Under this standard, any intangible value determination, including non-compete agreements and customer lists, is subsumed into goodwill. Management will test goodwill for impairment on an annual basis, or whenever events or circumstances indicate that interim impairment testing is necessary. The assessment of the recoverability of goodwill will be impacted if estimated future operating cash flows are not achieved. Goodwill will be amortized over 10 years with amortization expense of \$57,780 recorded for the year ended December 31, 2020.

Revenue recognition – Revenue from Contracts are services revenues and are recognized in the period that services are performed. Revenues for products, including applicable shipping and handling charged to customers, are recognized net of sales taxes upon shipment or delivery of products, depending on the related customer agreement.

Advertising costs – The Organization expenses advertising costs as incurred. Advertising expense for 2020 and 2019 was \$169,195 and \$245,177, respectively.

Income taxes – The Internal Revenue Service has determined that Northwest Center is exempt from federal income taxes under the provisions of Section 501(a) of the Internal Revenue Code because NWC qualifies as an organization included within Section 501(c)(3) of the Internal Revenue Code. On June 12, 2020 the IRS issued a letter confirming the 501(c)(3) status of Northwest Center Services ("NWCS"), effective January 1, 2018, as requested. NWC did incur net unrelated business income tax for the year ended December 31, 2020 and 2019, but it is not material to the financial statements. NWC has net operating losses of approximately \$3,000,000 to offset future net unrelated business income. The carryforwards expire in approximately 10 to 20 years. The tax asset representing the value of the net operating loss carryforwards has been offset by a full valuation allowance as of December 31, 2020, because it is uncertain whether NWC's deferred tax assets will become available to offset future tax liabilities.

NWC follows authoritative guidance relating to accounting for uncertain tax positions, which has no consolidated financial statement impact to NWC. NWC recognizes the tax benefit from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by the tax authorities, based on the technical merits of the position. The tax benefit is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. NWC recognizes interest and penalties related to income tax matters in income tax expense. As of December 31, 2020 and 2019, NWC had no uncertain tax positions requiring accrual. NWC files an exempt organization and unrelated business income tax return with the Internal Revenue Service.

Northwest Center

Notes to Consolidated Financial Statements

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

Use of estimates – The preparation of 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 reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Contingencies – At any time, NWC may be involved in legal proceedings or other claims and assessments arising in the normal course of business. The Organization’s policy is to routinely assess the likelihood of any adverse judgments or outcomes related to these matters, as well as ranges of probable losses. A determination of the amount of the reserves required, if any, for these contingencies is based on historical experience and/or after analysis of each known issue. Reserves related to these matters are recorded where it is probable that a loss has been incurred and the range of such loss can be estimated. With respect to other matters, management has concluded that a loss is only reasonably possible or remote and, therefore, no liability is recorded. Management discloses the facts regarding material matters assessed as reasonably possible and potential exposure, if determinable. Costs incurred defending claims are expensed as incurred.

Subsequent events – Subsequent events are events or transactions that occur after the consolidated statement of financial position date but before the consolidated financial statements are issued. The Organization recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the consolidated statement of financial position, including the estimates inherent in the process of preparing the consolidated financial statements. The Organization’s consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the consolidated statement of financial position but arose after the consolidated statement of financial position date and before the consolidated financial statements are issued.

Subsequent to December 31, 2020, the coronavirus outbreak continues as a public health emergency. The United States federal government as well as state governments have taken measures to restrict travel, business operations, and other activities in response. Given the dynamic nature of these circumstances and business disruption, the Organization anticipates a continued short-term impact. The Organization will continue to monitor the situation closely, but given the uncertainty surrounding the situation, the estimated impact to the Organization’s consolidated financial statements on a go-forward basis cannot be determined.

The Organization has evaluated subsequent events through April 30, 2021, which is the date the consolidated financial statements were issued.

Northwest Center

Notes to Consolidated Financial Statements

Note 2 – Investments and Fair Value Measurements

Investments are stated at fair value determined by quoted market prices. They consist primarily of corporate bonds, government bonds, mutual funds, and equities. These investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect total net assets and the amounts reported in the consolidated statement of financial position.

The Organization applies the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*, which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements.

The ASC describes three levels of inputs that may be used to measure fair value:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in inactive markets; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following table presents assets that are measured at fair value on a recurring basis and are categorized using the three levels of the fair value hierarchy as of December 31, 2020:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Bonds	\$ 9,593,149	\$ 9,593,149	\$ -	\$ -
Equity securities	3,043,830	3,043,830	-	-
Money market funds	<u>225,353</u>	<u>225,353</u>	<u>-</u>	<u>-</u>
	<u>\$ 12,862,332</u>	<u>\$ 12,862,332</u>	<u>\$ -</u>	<u>\$ -</u>

The following table presents assets that are measured at fair value on a recurring basis and are categorized using the three levels of the fair value hierarchy as of December 31, 2019:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Taxable bonds	\$ 6,132,407	\$ 6,132,407	\$ -	\$ -
Equity securities	5,425,769	5,425,769	-	-
Money market funds	<u>789,233</u>	<u>789,233</u>	<u>-</u>	<u>-</u>
	<u>\$ 12,347,409</u>	<u>\$ 12,347,409</u>	<u>\$ -</u>	<u>\$ -</u>

Northwest Center

Notes to Consolidated Financial Statements

Note 2 – Investments and Fair Value Measurements (continued)

Investment returns (losses) for the years ended December 31 consist of:

	<u>2020</u>	<u>2019</u>
Interest and dividends	\$ 292,875	\$ 392,517
Unrealized gains (losses) on investments	<u>521,734</u>	<u>1,447,049</u>
	814,609	1,839,566
Less management fees	<u>(21,079)</u>	<u>(28,883)</u>
Total investment income (loss)	<u>\$ 793,530</u>	<u>\$ 1,810,683</u>

Note 3 – Property and Equipment

Property and equipment consisted of the following at December 31:

	<u>2020</u>	<u>2019</u>
Property and equipment		
Buildings and improvements	\$ 405,989	\$ 399,146
Furniture and equipment	10,255,685	8,218,463
Leasehold improvements	3,521,530	3,544,168
Vehicles	<u>681,899</u>	<u>575,902</u>
Total property and equipment	14,865,103	12,737,679
Less accumulated depreciation	<u>(11,313,477)</u>	<u>(10,408,225)</u>
Property and equipment, net	<u>\$ 3,551,626</u>	<u>\$ 2,329,454</u>

Note 4 – Deferred Gain on Sale Leaseback Transaction

In October 2015, Northwest Center sold its land and building located at 7272 West Marginal Way S., Seattle, Washington, for \$11,500,000.

Following the sale of its building in October 2015, NWC entered into an agreement with the building purchaser to lease back that portion of the building currently housing administrative offices. The lease has a 10-year term and requires monthly payments of \$17,171 that increase annually. The transaction has been accounted for as a sale lease-back in accordance with the provisions of ASC 840. As part of the transaction, NWC recorded a deferred gain of \$1,744,731 which is amortized using the straight-line method over the term of the lease agreement. For the years ended December 31, 2020 and 2019, NWC recognized \$174,473 and \$174,473, respectively, of the deferred gain in the consolidated statements of activities.

Northwest Center
Notes to Consolidated Financial Statements

Note 5 – Long-Term Debt

Long-term debt consisted of the following at December 31:

	<u>2020</u>	<u>2019</u>
Fixed-rate 5-year \$1,988,001 term loan, matured in April 2020, payable monthly in equal installments, based on a 60-month amortization at a 2.97% annual interest rate.	\$ -	\$ 177,159
Fixed-rate 5-year \$616,623 term loan, matures in August 2025, payable in monthly equal installments, based on a 60-month amortization at a 3.30% annual interest rate.	578,600	-
Fixed-rate 5-year \$4,500,000 term loan, matures in January 2026, payable in monthly principle installments plus interest, based on a 60-month annual escalating principle amortization and interest with a credit spread of 2.75% plus LIBOR floor of .50%. At December 31, 2020, the annual interest rate was 3.25%.	4,500,000	-
Less current portion	<u>(908,607)</u>	<u>(177,159)</u>
	<u>\$ 4,169,993</u>	<u>\$ -</u>

In September 2020, NWC entered into a financing agreement with Key Equipment Finance for equipment at NWC's commercial laundry operation, Puget Sound Laundry Services (PSLS). The loan is collateralized by a line ironer, folding machine and folding robot equipment shown under property and equipment on the consolidated statements of financial position as of December 31, 2020.

In December 2020, NWC entered into a senior secured Term Loan with WaFd Bank to fund the purchase of Lithtex NW's assets. The loan is secured by a first lien security interest in all personal property of NWC. The loan matures on January 1, 2026 and accrues interest at a credit spread of 2.75% + LIBOR with a floor of .50%. LIBOR at December 31, 2020, was .14%. LIBOR floor of .50% plus the credit spread of 2.75% total interest at December 31, 2020, was 3.25% per annum. The loan repayment consists of monthly blended principal and interest payments, the principle portion escalates annually over the course of the five-year term.

Northwest Center

Notes to Consolidated Financial Statements

Note 6 – Payroll Protection Program (PPP Loan)

In May 2020, the Organization received loan proceeds of \$3,666,807 under the Paycheck Protection Program (the PPP Loan). The Paycheck Protection Program (PPP) was established under the recent congressionally approved Coronavirus Aid, Relief, and Economic Security Act (the CARES Act) and is administered by the U.S. Small Business Administration (SBA). The PPP Loan to the Organization is being made through WaFd Bank. The original term of the PPP Loan was two years which can be extended to five years by mutual agreement of the Organization and SBA. The annual interest rate on the PPP Loan is 1%. Under the terms of the loan, a portion or all of the loan is forgivable to the extent the loan proceeds are used to fund qualifying payroll, rent and utilities during a designated period (“covered period”). While the Organization believes that it has acted in compliance with the program and plans to seek full forgiveness of the PPP Loan, no assurance can be provided that the Organization will obtain forgiveness of the PPP Loan in whole or in part. The Organization has applied for loan forgiveness but has not yet received a determination. The loan agreement calls for monthly payments of interest and principal payments of \$21,197 commencing in November 2020 through maturity in May 2022. However, subsequent to the issuance of the loan, the SBA issued revised guidance allowing borrowers to defer repaying any amounts not forgiven at the later of (a) 10 months following the borrower’s covered period, or (b) when the SBA remits any amounts forgiven to the lender.

Interest expense was \$85,212 and \$8,228 for the years ended December 31, 2020 and 2019, respectively.

Note 7 – Commitments and Contingencies

Lease commitments – The Organization leases real estate and equipment under operating lease agreements through 2029. Future minimum rental payments required under these operating leases are as follows for the years ending December 31:

2021	\$ 1,875,751
2022	1,983,475
2023	1,349,024
2024	879,056
Thereafter	<u>630,866</u>
	<u>\$ 6,718,172</u>

In April 2020, the organization entered in to a sixty-four month lease for 15,780 square feet of office space in Renton Washington. Base rent for year one is \$13.00 per square foot, increasing by .50 per square foot annually throughout the lease. In addition, the organization pays its share of the building operating costs and property taxes, estimated at \$10.78 per square foot for the first year. The organization received abatement of the base rent during the first four months of the lease, valued at \$68,380. The value of the abatement was deferred and will be amortized over the life of the lease.

Rent expense related to the operating lease agreements, including leases on a month-to-month term and variable charges related to these operating lease agreements, was \$2,862,347 and \$2,531,633 during 2020 and 2019, respectively.

Note 7 – Commitments and Contingencies (continued)

Legal matters – From time to time, NWC is involved in unresolved legal actions that arise in the normal course of business. The most prevalent of these unresolved actions involve disputes related to contracts or employment issues. The aggregate range of reasonably possible losses in excess of accrued liabilities, if any, associated with these unresolved legal actions is not material. In some cases, the Organization cannot reasonably estimate a range of loss because there is insufficient information regarding the matter.

Management further believes there is no more than a remote chance that any liability arising from these matters would be material. Although it is not possible to predict with certainty the outcome of these unresolved legal actions, management believes that these actions will not individually or in the aggregate have a material adverse effect on its consolidated statement of activities, financial position, or liquidity.

Note 8 – Benefit Plans

NWC has a 401(k) benefit plan for employees who meet eligibility requirements set forth in the plan. NWC's matching contributions totaled \$362,121 and \$365,396 for the years ended December 31, 2020 and 2019, respectively.

NWC has a 403(b) benefit plan for employees who meet eligibility requirements set forth in the plan. Participants are eligible to contribute up the statutory limit and receive discretionary 403(b) matching contributions.

Note 9 – Concentrations

One customer represented 37% and 26% of total revenues for the years ended December 31, 2020 and 2019, respectively, and 44% and 40% of corresponding accounts receivable as of December 31, 2020 and 2019, respectively. A second customer represented 8% and 10% of total revenues for the years ended December 31, 2020 and 2019, respectively, and 4% and 6% of corresponding accounts receivable as of December 31, 2020 and 2019, respectively.

Note 10 – Liquidity Disclosure

As part of the Organization's liquidity management, it manages its operating cash balance on hand and financial assets to be available as its general expenditures, liabilities, and other obligations come due. As part of this process, a review of accounts receivable aging tables are conducted with each of the Organization's divisions on a monthly basis. On at least a weekly basis, a cash position report is distributed to the executive management team with an updated weekly and fiscal year forecast. Short term liquidity needs are managed primarily from maintaining adequate cash in operating accounts and pre-paid and securitized credit card accounts, as well as through the use of a \$4.0 million revolving line of credit with WaFd bank. As of December 31, 2020, the Organization had \$2.8 million available on its line of credit. In addition, the Organization has \$12,862,332 in investments of varying maturity. On occasion, the Organization has utilized available cash in its investment account to satisfy short term liquidity needs, and did so on two occasions during the period. The Organization does not intend to liquidate investment assets for operating cash, however, investment funds could be made available if necessary. See Note 2 for disclosures about investments.

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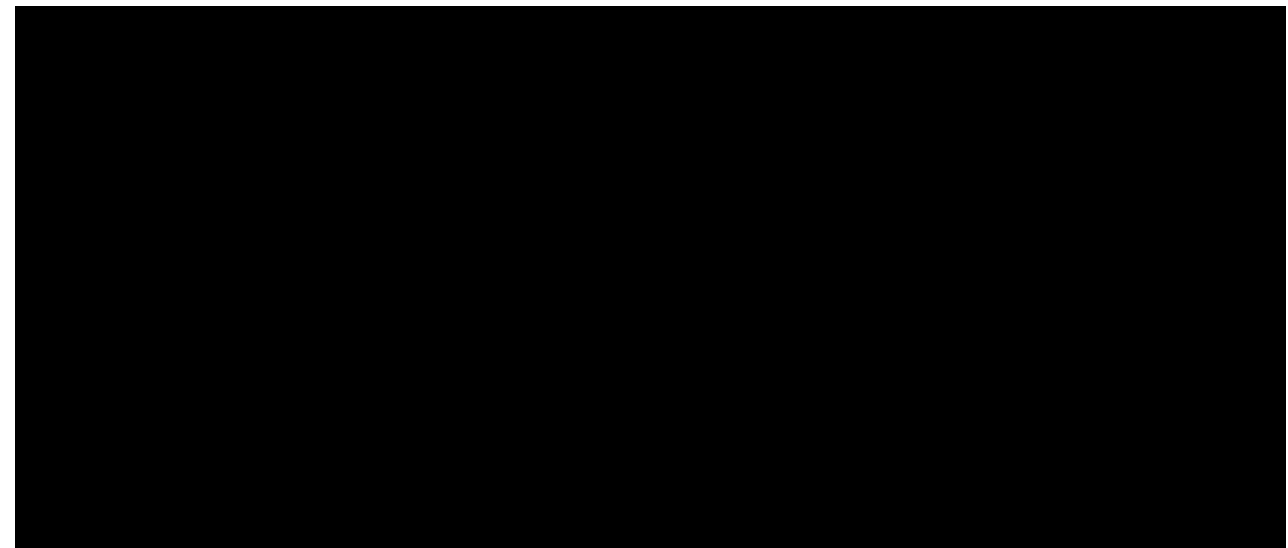
Notes to Consolidated Financial Statements

Note 11 – Line of Credit

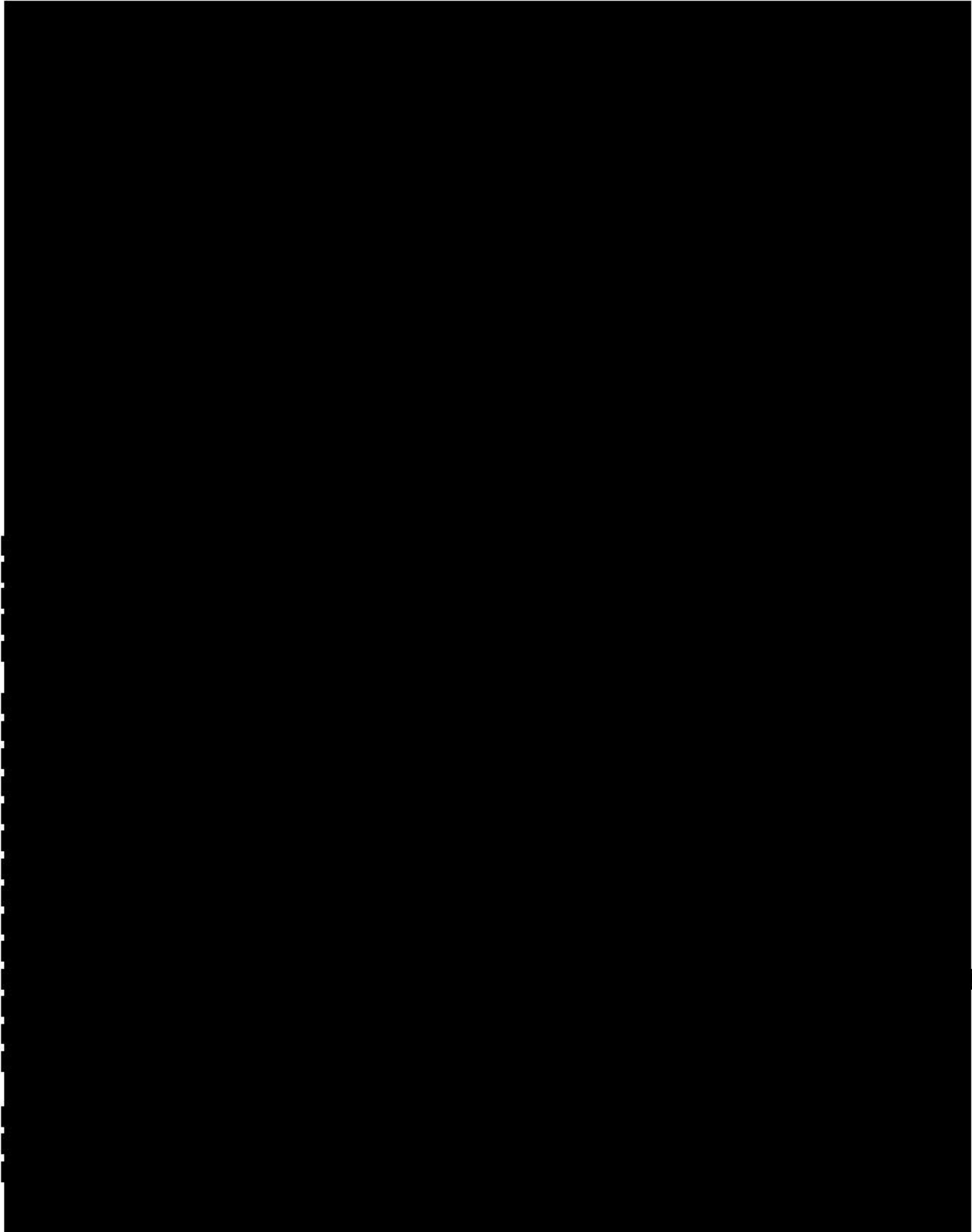
In August 4, 2020, the Organization executed a two-year line of credit agreement with Washington Federal (WaFd) Bank in the amount of \$4 million. The credit agreement was amended and restated as a combined loan agreement in December 2020, with the term loan financing used in the asset purchase of Lithtex NW LLC. The line carries a variable interest rate based on LIBOR plus a Credit Floor of 2.75% and expires in September 2022. On December 31, 2020, the Organization had \$2,800,000 of remaining availability on the line of credit. The LIBOR interest rate on December 31, 2020, was .14% plus the Credit Floor totaling 2.89%.

Note 12 – Lithtex NW division Acquisition

In December 2020, the Organization, acting through Northwest Center Services, acquired certain assets from Lithtex NW, LLC consisting of inventory, work in progress, equipment, vehicles, Goodwill and other intangibles. With the addition of this new social enterprise, the Organization expanded into the commercial print industry with an intent to also diversify employment opportunities for people with disabilities within the Organization's own social enterprise portfolio.

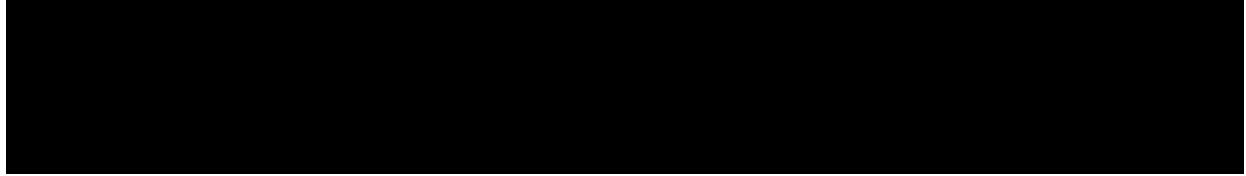


Note 12 – Lithtex NW division Acquisition



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Notes to Consolidated Financial Statements

Note 12 – Lithtex NW division Acquisition (continued)





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