



REPORT OF INDEPENDENT AUDITORS
AND CONSOLIDATED FINANCIAL STATEMENTS

NORTHWEST CENTER

December 31, 2021 and 2020

Table of Contents

	PAGE
Report of Independent Auditors	1–2
Consolidated Financial Statements	
Consolidated statements of financial position	3
Consolidated statements of activities	4
Consolidated statements of cash flows	5
Consolidated statements of functional expenses	6
Notes to consolidated financial statements	7–17

Report of Independent Auditors

The Board of Directors
Northwest Center

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of Northwest Center, which comprise the consolidated statements of financial position as of December 31, 2021 and 2020, 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.

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, 2021 and 2020, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Northwest Center and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Northwest Center's ability to continue as a going concern within one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Northwest Center's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Northwest Center's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.



Seattle, Washington
April 25, 2022

Northwest Center Consolidated Statements of Financial Position

ASSETS	December 31,	
	2021	2020
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,766,013	\$ 868,085
Contractual cash deposits	325,287	325,021
Accounts receivable, net	10,010,023	9,214,449
Inventory, net	279,007	164,942
Other current assets	1,297,021	307,590
Total current assets	13,677,351	10,880,087
INVESTMENTS	20,296,893	12,862,332
PROPERTY and EQUIPMENT, net	1,391,170	3,551,626
GOODWILL, net	5,871,016	6,551,332
Total assets	\$ 41,236,430	\$ 33,845,377
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 1,134,808	\$ 1,138,306
Accrued expenses	3,461,395	2,789,082
Deferred revenue	170,469	94,646
Line of credit	-	1,200,000
Current portion of long-term debt	876,000	908,607
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	5,817,145	7,023,888
LONG-TERM LIABILITIES		
Long-term debt, less current portion	2,832,000	4,169,993
Paycheck Protection Program Loan, less current portion	-	2,948,033
Contingent obligations	1,431,414	1,881,414
Deferred gain on disposal of property, less current portion	494,341	668,814
Total long-term liabilities	4,757,755	9,668,254
Total liabilities	10,574,900	16,692,142
NET ASSETS		
Without donor restrictions	30,380,005	13,832,235
Board-designated reserve fund	-	3,321,000
Total without donor restrictions	30,380,005	17,153,235
Total with donor restrictions	281,525	-
Total net assets	30,661,530	17,153,235
Total liabilities and net assets	\$ 41,236,430	\$ 33,845,377

See accompanying notes.

Northwest Center

Consolidated Statements of Activities

	Years Ended December 31,	
	2021	2020
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
Revenues		
Contract revenue	\$ 45,758,826	\$ 35,556,045
Sale of donated merchandise	3,706,468	2,875,503
Government fees for services	7,394,697	6,715,092
Tuition	2,707,657	2,072,367
Contributions	1,362,474	1,441,799
Recycling and other	232,125	399,401
Net assets released from donor restrictions	-	-
Total revenues	<u>61,162,247</u>	<u>49,060,207</u>
Expenses		
Program services		
Social enterprises	37,843,201	28,831,692
Donated merchandise program	3,039,391	4,632,536
Employment services	4,533,280	4,617,679
Child and family services	7,586,138	7,666,533
Total program services	53,002,010	45,748,440
Supporting services	8,488,545	8,333,998
Total expenses	<u>61,490,555</u>	<u>54,082,438</u>
(Decrease) increase in net assets from operations	(328,308)	(5,022,231)
Net Loss from discontinued operations	-	(20,058)
Amortization of Intangibles	(680,316)	(57,780)
Amortization of deferred gain	174,473	172,470
Investment income (loss), net	775,382	793,530
Other income (expense)	100,367	200,642
Paycheck Protection Program Loan forgiveness	8,025,395	-
Provider Relief Fund grant	458,186	-
Gain on Sale of Puget Sound Laundry assets	4,700,248	-
Gain on sale of other assets	1,343	-
Increase (decrease) in net assets without donor restrictions	<u>13,226,770</u>	<u>(3,933,427)</u>
CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS		
Contributions	38,025	-
Grant revenue	243,500	-
Total contributions with donor restrictions	281,525	-
Net assets released from donor restrictions	-	-
Increase in net assets with donor restrictions	<u>281,525</u>	<u>-</u>
Increase (decrease) in net assets	<u>13,508,295</u>	<u>(3,933,427)</u>
NET ASSETS, beginning of year	<u>17,153,235</u>	<u>21,086,662</u>
NET ASSETS, end of year	<u>\$ 30,661,530</u>	<u>\$ 17,153,235</u>

Northwest Center
Consolidated Statements of Cash Flows

	Years Ended December 31,	
	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ 13,508,295	\$ (3,933,427)
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation and amortization	1,707,723	884,883
Loss (gain) on disposal of property and equipment	(3,796,436)	7,178
Realized and unrealized (gain) loss on investments	(792,398)	(514,923)
Forgiveness of Paycheck Protection Program Loan	(7,953,329)	-
Changes in operating assets and liabilities		
Accounts and pledges receivable, net	(795,574)	461,389
Inventory, net	(114,065)	(164,942)
Other assets	(989,431)	416,277
Accounts payable	(3,498)	106,343
Accrued expenses and liabilities	672,313	533,884
Deferred revenue	75,823	47,596
Deferred gain on sale of building	(174,473)	(174,473)
Net cash provided by (used in) operating activities	1,344,950	(2,330,215)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(170,515)	(1,004,453)
Purchase of investments	(6,642,163)	-
Proceeds from sale of assets	5,100,000	-
Cash paid for acquisition	-	(5,970,000)
Net cash used in investing activities	(1,712,678)	(6,974,453)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment on line of credit	(1,200,000)	200,000
Borrowing from Paycheck Protection Program Loan	4,286,522	3,666,807
Borrowings on long-term debt obligations	-	5,116,624
Payments on contingent liabilities	(450,000)	-
Payments on long-term debt obligations	(1,370,600)	(215,182)
Net cash provided by financing activities	1,265,922	8,768,249
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	898,194	(536,419)
CASH AND CASH EQUIVALENTS		
Beginning of year	1,193,106	1,729,525
End of year	\$ 2,091,300	\$ 1,193,106
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	\$ 192,956	\$ 85,212

Northwest Center Consolidated Statements of Functional Expenses

Year Ended December 31, 2021	Total	Supporting Services		Total	Total Expenses
	Program Services	Administration	Philanthropy	Supporting Services	
Salaries and benefits	\$ 41,382,286	\$ 5,086,970	\$ 558,120	\$ 5,645,090	\$ 47,027,376
Supplies	3,167,208	75,090	93,201	168,291	3,335,499
Facility expenses	4,196,828	621,985	5,723	627,707	4,824,536
Professional fees and contract services	1,999,060	1,130,398	100,790	1,231,188	3,230,248
Sales expense	857,731	177,538	35,554	213,091	1,070,823
Licenses, fees, and taxes	168,940	133,376	15,388	148,763	317,703
Computer software and equipment rental	238,755	204,603	8,863	213,465	452,220
Other	9,894	1,868	24	1,892	11,786
Total Nonpersonnel expenses	10,638,417	2,344,856	259,542	2,604,398	13,242,815
Total expenses before interest expense and depreciation	52,020,703	7,431,826	817,662	8,249,488	60,270,191
Interest expense	16,043	176,913	-	176,913	192,956
Depreciation	965,264	51,527	10,616	62,144	1,027,408
Total functional expenses	\$ 53,002,010	\$ 7,660,267	\$ 828,279	\$ 8,488,546	\$ 61,490,555

Year Ended December 31, 2020	Total	Supporting Services		Total	Total Expenses
	Program Services	Administration	Philanthropy	Supporting Services	
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	\$ 45,748,440	\$ 7,657,524	\$ 676,474	\$ 8,333,998	\$ 54,082,438

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 501c3 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), innovate inclusive early learning curriculums 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 the mission of inclusion.

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 the 2020 balance were Board-designated reserve funds. The account was eliminated in 2021. The Board-designated funds included in net assets without donor restrictions totaled \$0 and \$3,321,000 at December 31, 2021 and 2020, 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. Net assets with donor restrictions totaled \$281,525 and \$0 at December 31, 2021 and 2020, respectively.

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 (plus accrued interest) deposited into an interest-bearing money market account, the Debt Service Reserve account, which acts as partial security for the \$4,000,000 term loan with Washington Federal (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 5 year term of the loan. See Note 6 for related loan disclosures.

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 \$79,000 and \$285,000 at December 31, 2021 and 2020, respectively.

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. In accordance with 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. Amortization expense for 2021 and 2020 was \$680,316 and \$57,780, respectively.

Revenue recognition – 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. Services revenues are recognized in the period that services are performed.

Advertising costs – The Organization expenses advertising costs as incurred. Advertising expense for 2021 and 2020 was \$301,692 and \$169,195, respectively.

Income taxes – The Internal Revenue Service has determined that Northwest Center and Northwest Center Services are 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. NWC did not incur net unrelated business income tax for the years ended December 31, 2021 and 2020. NWC has a net operating loss 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, 2021, 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, 2021 and 2020, 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, 2021, the coronavirus outbreak previously viewed as a public health emergency is beginning to abate. The United States federal government as well as state governments are loosening their measures restricting travel, business operations, and other activities. Given the dynamic nature of these circumstances and business disruption, the Organization anticipates a continued short-term impact to the organization as the economy slowly recovers. 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 25, 2022, 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, 2021:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Bonds	\$ 15,052,647	\$ 15,052,647	\$ -	\$ -
Equity securities	4,212,746	4,212,746	-	-
Money market funds	1,031,499	1,031,499	-	-
	<u>\$ 20,296,893</u>	<u>\$ 20,296,893</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, 2020:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Taxable bonds	\$ 9,593,149	\$ 9,593,149	\$ -	\$ -
Equity securities	3,043,830	3,043,830	-	-
Money market funds	225,353	225,353	-	-
	<u>\$ 12,862,332</u>	<u>\$ 12,862,332</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>2021</u>	<u>2020</u>
Interest and dividends	\$ 319,047	\$ 292,875
Unrealized gains on investments	<u>473,620</u>	<u>521,734</u>
	792,667	814,609
Less management fees	<u>(17,287)</u>	<u>(21,079)</u>
Total investment income	<u>\$ 775,380</u>	<u>\$ 793,530</u>

Note 3 – Inventory

Inventory at December 31, 2021 and 2020, was \$279,007 and \$164,942, respectively. As of December 31, 2021 and 2020, no reserve for slow-moving inventory has been established.

Note 4 – Property and Equipment

Property and equipment consisted of the following at December 31:

	<u>2021</u>	<u>2020</u>
Property and equipment		
Buildings and improvements	\$ 24,481	\$ 405,989
Furniture and equipment	3,640,593	10,255,685
Leasehold improvements	50,716	3,521,530
Vehicles	<u>590,975</u>	<u>681,899</u>
Total property and equipment	4,306,765	14,865,103
Less accumulated depreciation	<u>(2,915,595)</u>	<u>(11,313,477)</u>
Property and equipment, net	<u>\$ 1,391,170</u>	<u>\$ 3,551,626</u>

On December 10, 2021, NWC sold the assets of its Puget Sound Laundry Services (PSLS). The assets sold consisted of property and equipment totaling \$6,122,183, building improvements \$381,508 and leasehold improvements of \$3,420,707. The net book value of assets sold was \$1,299,752. See Note 13 for additional disclosures regarding the asset sale.

Northwest Center Notes to Consolidated Financial Statements

Note 5 – 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 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, 2021 and 2020, NWC recognized \$174,473 of the deferred gain in the consolidated statements of activities.

Note 6 – Long-Term Debt

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

	2021	2020
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
Floating-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 0.50%. At December 31, 2021, the annual interest rate was 3.25%.	3,708,000	4,500,000
Less current portion	(876,000)	(908,607)
	\$ 2,832,000	\$ 4,169,993

Future maturities of long-term debt are as follows:

2022	\$ 876,000
2023	912,000
2024	948,000
2025	972,000
2026	-
	\$ 3,708,000

In May 2020, NWC received loan proceeds of \$3,666,807 under the Paycheck Protection Program (the PPP Loan). On June 8, 2021, Northwest Center received full forgiveness of the loan and \$40,029 in accrued interest from the Small Business Administration (SBA).

Northwest Center

Notes to Consolidated Financial Statements

Note 6 – Long-Term Debt (continued)

In April 2021, NWCS received loan proceeds of \$4,286,528 from its first draw PPP Loan. On January 24, 2022, NWCS received full forgiveness of the loan and \$32,030 in accrued interest from the SBA. The forgiveness of the loan was recognized in 2021 following FASB ASC 958-905 guidance in determining that the obligations were “substantially met” prior to December 31, 2021.

In November 2021 the Key Equipment Finance Loan was paid in full. The financing agreement with Key Equipment Finance, dated September 2020, was for equipment at NWC’s commercial laundry operation, PSLS. The loan was collateralized by a line ironer, folding machine and folding robot equipment. The loan was paid in full in advance of the sale of PSLS assets.

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 Debt Service reserve account has been established to act as partial security on 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. As of the measurement period, the Organization was in compliance with all of its bank covenants.

Interest expense was \$192,956 and \$85,212 for the years ended December 31, 2021 and 2020, respectively.

Note 7 – Commitments and Contingencies

Contingent commitments – In December 2020, as part of the purchase of LithtexNW’s assets, NWC held back a reserve for legal matters and set up a long-term liability for future Annual earn-out payments. On December 10, 2021, one half of the legal holdback, \$450,000, was disbursed to the sellers of Lithtex NW.

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:

2022	\$ 1,652,334
2023	1,344,178
2024	926,187
2025	573,827
Thereafter	<u>123,039</u>
	<u>\$ 4,619,565</u>

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 \$2,683,476 and \$2,862,347 during 2021 and 2020, respectively.

Northwest Center Notes to Consolidated Financial Statements

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 – Net Assets

Net assets with donor restrictions consist of contributions restricted for programs and capital additions as follows:

	<u>2021</u>	<u>2020</u>
Various foundations or donors	<u>\$ 281,525</u>	<u>\$ -</u>

Note 9 – 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 \$436,823 and \$362,121 for the years ended December 31, 2021 and 2020, 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 10 – Concentrations

One customer represented 34% and 37% of total revenues for the years ended December 31, 2021 and 2020, respectively, and 55% and 44% of corresponding accounts receivable as of December 31, 2021 and 2020, respectively. A second customer represented 10% and 8% of total revenues for the years ended December 31, 2021 and 2020, respectively, and 5% and 4% of corresponding accounts receivable as of December 31, 2021 and 2020, respectively.

Northwest Center

Notes to Consolidated Financial Statements

Note 11 – Line of Credit

On August 4, 2020, the Organization executed a two-year line of credit agreement with WaFd Bank in the amount of \$4 million. The line carries a variable interest rate based on LIBOR plus 2.75% and expires in September 2022. On December 31, 2021, the Organization had \$4,000,000 of remaining availability on the line of credit. The LIBOR interest rate on December 31, 2021, was .064%.

Note 12 – 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. In addition, the Organization has \$20,296,893 in investments of varying maturity. To help manage unanticipated liquidity needs, the Organization also has a line of credit in the amount of \$4.0 million. Although the Organization does not intend to withdraw funds from its investment account, investment funds could be made available if necessary. See Note 2 for disclosures about investments.

Additionally, the Organization monitors liquidity via daily or weekly cash reporting and a monthly financial statement review process.

Note 13 – Puget Sound Laundry Services Asset Sale

In December of 2021, the Organization completed the sale of the assets relating to PSLS to ImageFIRST Healthcare Laundry Specialists (Buyer) for a total consideration of \$_____. Founded as a division of Northwest Center, PSLS has served government and commercial customers in the Puget Sound region since 1994.

In this sale, ImageFIRST acquired the assets of the Organization's laundry operations and assumed all laundry operations under NWCS, which focus on private sector customers. NWC retained the operations, contracts, and employees related to servicing all existing government customers—including continuing to employ the people with disabilities who work on contracts sourced through NWC's partnership with SourceAmerica, a nonprofit agency that creates employment opportunities through a national network of affiliated nonprofit agencies.

The Organization identified divestiture of the private sector operations of PSLS as a means to garner financial benefit for the Organization, spin-off an operation into the private sector that models and exemplifies the benefits of an inclusive workforce, and geographically expand through a nationwide employment partnership with the Buyer.

Balance of disclosure redacted for posting purposes. Please contact Northwest Center for full disclosure.

Northwest Center
Notes to Consolidated Financial Statements

Note 13 – Puget Sound Laundry Services Asset Sale (continued)

NWC entered into a supplier agreement with the Buyer for use of the equipment and facility to service NWC contracts based on a fee per pound processed.

	Northwest Center	Northwest Center Services	Total
	<u> </u>	<u> </u>	<u> </u>
	\$	\$	\$
	<u> </u>	<u> </u>	<u> </u>
	<u> </u>	<u> </u>	<u> </u>
Assets sold			
Equipment and fixtures	\$	\$	\$
Building improvements			
Leasehold improvements			
	<u> </u>	<u> </u>	<u> </u>
Total assets			
Less accumulated depreciation			
	<u> </u>	<u> </u>	<u> </u>
Net book value of assets sold			
	<u> </u>	<u> </u>	<u> </u>
Gain on sale	<u> </u>	<u> </u>	<u> </u>

