Report of Independent Auditors
and Consolidated Financial Statements

Northwest Center

December 31, 2022 and 2021

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Report of Independent Auditors

The Board of Directors
Northwest Center

Report on the Audit of the Consolidated 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, 2022 and 2021, 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, 2022 and 2021, 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.

Emphasis of Matter – Change in Accounting Principle

As discussed in Note 1 to the accompanying consolidated financial statements, on January 1, 2022, Northwest Center adopted Financial Accounting Standards Board Accounting Standards Update 2016-2, *Leases*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Consolidated 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 Consolidated 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.

Moss Adams LLP

Seattle, Washington
May 23, 2023

Consolidated Financial Statements

Northwest Center
Consolidated Statements of Financial Position
December 31, 2022 and 2021

	2022	2021
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 1,479,618	$ 1,766,013
Contractual cash deposits	326,196	325,287
Accounts receivable, net	11,576,856	10,010,023
Inventory, net	469,868	279,007
Other current assets	505,244	1,297,021
Total current assets	14,357,782	13,677,351
INVESTMENTS	16,398,610	20,296,893
PROPERTY and EQUIPMENT, net	1,458,976	1,391,170
RIGHT-OF-USE ASSETS	5,369,677	-
GOODWILL, net	5,190,700	5,871,016
Total assets	$ 42,775,745	$ 41,236,430
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$ 694,928	$ 1,134,808
Accrued expenses	3,829,824	3,461,395
Deferred revenue	77,088	170,469
Line of credit	3,000,000	-
Current portion of long-term debt	912,000	876,000
Current portion of lease liability	1,729,365	-
Current portion of deferred gain on disposal of property	174,473	174,473
Total current liabilities	10,417,678	5,817,145
LONG-TERM LIABILITIES		
Long-term debt, less current portion	1,920,000	2,832,000
Lease liability, less current portion	3,640,312	-
Contingent obligations	662,000	1,431,414
Deferred gain on disposal of property, less current portion	319,867	494,341
Total long-term liabilities	6,542,179	4,757,755
Total liabilities	16,959,857	10,574,900
NET ASSETS		
Without donor restrictions	25,815,888	30,380,005
Total without donor restrictions	25,815,888	30,380,005
Total with donor restrictions	-	281,525
Total net assets	25,815,888	30,661,530
Total liabilities and net assets	$ 42,775,745	$ 41,236,430

See accompanying notes.

Northwest Center
Consolidated Statements of Activities
Years Ended December 31, 2022 and 2021

	2022	2021
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
Revenues		
Contract revenue	$ 49,561,380	$ 45,758,826
Sale of donated merchandise	3,820,485	3,706,468
Government fees for services	8,569,411	7,394,697
Tuition	2,566,745	2,707,657
Contributions	2,916,449	1,362,474
Recycling and other	107,017	232,125
Net assets released from donor restrictions	281,525	-
Total revenues	67,823,012	61,162,247
Expenses		
Program services		
Social enterprises	38,787,377	37,843,201
Donated merchandise program	2,901,922	3,039,391
Employment services	7,892,083	4,533,280
Child and family services	8,421,039	7,586,138
Total program services	58,002,421	53,002,010
Supporting services	11,707,292	8,488,545
Total expenses	69,709,713	61,490,555
(Decrease) increase in net assets from operations	(1,886,701)	(328,308)
Amortization of goodwill	(680,316)	(680,316)
Amortization of deferred gain	174,473	174,473
Investment income (loss), net	(2,415,312)	775,382
Other income (expense)	74,025	100,367
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
Contingent liability earnout reserve reevaluation	169,414	-
Gain on sale of other assets	300	1,343
Increase (decrease) in net assets without donor restrictions	(4,564,117)	13,226,770
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	(281,525)	-
Increase in net assets with donor restrictions	(281,525)	281,525
Increase (decrease) in net assets	(4,845,642)	13,508,295
NET ASSETS, beginning of year	30,661,530	17,153,235
NET ASSETS, end of year	$ 25,815,888	$ 30,661,530

See accompanying notes.

Northwest Center
Consolidated Statements of Cash Flows
Years Ended December 31, 2022 and 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	$ (4,845,642)	$ 13,508,295
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation and amortization	1,217,393	1,707,723
Gain on disposal of property and equipment	-	(3,796,436)
Noncash operating lease expense	831,480	-
Realized and unrealized (gain) loss on investments	2,398,283	(792,398)
Forgiveness of Paycheck Protection Program loan	-	(7,953,329)
Changes in operating assets and liabilities		
Accounts and pledges receivable, net	(1,566,833)	(795,574)
Inventory, net	(190,861)	(114,065)
Other assets	791,777	(989,431)
Accounts payable	(439,880)	(3,498)
Accrued expenses and liabilities	368,429	672,313
Operating lease liabilities	(831,480)	-
Deferred revenue	(93,381)	75,823
Deferred gain on sale of building	(174,474)	(174,473)
Net cash provided by (used in) operating activities	(2,535,189)	1,344,950
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(604,883)	(170,515)
Purchase of investments	(250,000)	(6,642,163)
Proceeds from sale of assets	-	5,100,000
Proceeds from sale of investments	1,750,000	-
Net cash used in investing activities	895,117	(1,712,678)
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowing (repayment) on line of credit	3,000,000	(1,200,000)
Borrowing from Paycheck Protection Program loan	-	4,286,522
Payments on contingent liabilities	(319,414)	(450,000)
Payments on long-term debt obligations	(1,326,000)	(1,370,600)
Net cash provided by financing activities	1,354,586	1,265,922
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(285,486)	898,194
CASH AND CASH EQUIVALENTS		
Beginning of year	2,091,300	1,193,106
End of year	$ 1,805,814	$ 2,091,300
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Right-of-use assets obtained in exchange for operating lease liabilities	$ 6,201,157	$ -
Cash paid for interest	$ 195,733	$ 192,956

See accompanying notes.

Northwest Center
Consolidated Statements of Functional Expenses
Years Ended December 31, 2022 and 2021

Year Ended December 31, 2022	Total Program Services	Supporting Services		Total Supporting Services	Total Expenses
		Administration	Philanthropy		
Salaries and benefits	$ 46,818,896	$ 5,938,057	$ 550,479	$ 6,488,536	$ 53,307,432
Supplies	3,214,762	84,752	33,836	118,588	3,333,350
Facility expenses	3,434,475	774,202	5,015	779,217	4,213,692
Professional fees and contract services	2,430,357	1,617,956	171,429	1,789,385	4,219,742
Sales expense	1,135,486	240,272	24,348	264,620	1,400,106
Licenses, fees, and taxes	222,837	125,588	24,139	149,727	372,564
Computer software and equipment rental	260,249	248,551	1,066	249,617	509,866
In-kind contributions expense	-	-	1,600,536	1,600,536	1,600,536
Other	13,800	1,270	4,545	5,815	19,615
Total nonpersonnel expenses	10,711,966	3,092,591	1,864,914	4,957,505	15,669,471
Total expenses before interest expense and depreciation	57,530,862	9,030,648	2,415,393	11,446,041	68,976,903
Interest expense	24	195,709	-	195,709	195,733
Depreciation	471,535	55,827	9,715	65,542	537,077
Total functional expenses	$ 58,002,421	$ 9,282,184	$ 2,425,108	$ 11,707,292	$ 69,709,713

Year Ended December 31, 2021	Total Program Services	Supporting Services		Total Supporting Services	Total Expenses
		Administration	Philanthropy		
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

See accompanying notes.

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 Internal Revenue Service (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, employs an inclusive workforce, and generates 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 are available for use by Northwest Center as approved by the Board of Directors or executive management of Northwest Center. The Board-designated fund previously included in net assets without donor restrictions was eliminated in 2021.

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 $0 and $281,525 at December 31, 2022 and 2021, 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.

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 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.

Effective January 1, 2022, the Organization implemented Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets.* Contributions of noncash assets (in-kind donations) are recognized at their estimated fair market value on the date of contribution. NWC provides the donor with a Gift In-Kind Contribution Form and receives the donor completed form along with the in-kind donation. The donor fills out the estimated fair market value of the donation and notes restrictions (if applicable). The Organization uses the form to record the donation, crediting revenue and debiting expense. In-kind donations were $1,600,539 and $60,310 for the years ending December 31, 2022 and 2021, respectively. In 2022, NWC received two unusually large in-kind donations for approximately $1,440,000 of clothing and $80,000 of baby items.

A number of volunteers donate time in the furtherance of the Organization’s objectives. However, in accordance with United States generally accepted accounting principles (U.S. GAAP), the value of these services is not recognized in these consolidated financial statements because they do not meet certain specific criteria.

Allocation of functional expenses – The costs of providing various programs and other activities have been summarized on a functional basis in the consolidated statement of activities and the consolidated statements of functional expenses. Specifically identifiable costs are assigned 100% to the specific program. In addition, certain costs have been allocated amount the programs and supporting services based on the benefits derived.

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

Contractual cash deposits – Contractual cash deposits consist of $75,000 (plus accrued interest) 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 $4,500,000 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 require a minimum balance of $250,000 be maintained over the five-year term of the loan.

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 $128,000 and $79,000 at December 31, 2022 and 2021, respectively.

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

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.

Right-of-use assets – In the ordinary course of business, the Organization enters into a variety of leases, including for real estate, vehicles, and office equipment. These leases are recorded in compliance with FASB Accounting Standards Codification (ASC) 842, *Leases*. Beginning on January 1, 2022, the Organization adopted ASC 842, which requires all leases longer than 12 months to be recorded as assets and liabilities on the consolidated statements of financial position. For additional detail see Note 7 – Commitments and Contingencies.

Right-of-use (ROU) assets represent the Organization's right to use, or control the use of, a specified asset for the lease term. Lease liabilities are the Organization's obligation to make lease payments arising from a lease and are measured on a discounted basis. Operating lease ROU assets and operating lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term on the commencement date. The operating lease ROU asset includes any lease payments made and initial direct costs incurred and excludes lease incentives. The lease terms may include options to extend or terminate the lease when it is reasonably certain that the Organization will exercise that option.

The adoption had a material impact on the Organization's consolidated statement of financial position but did not have a material impact on the consolidated statement of activities. The most significant impact was the recognition of ROU assets and lease liabilities for operating leases. Adoption of the standard required the Organization to adjust amounts as of January 1, 2022, resulting in an increase in operating lease ROU assets of $5,368,677 and increase in operating lease liabilities of $5,368,677. For additional detail see Note 7 – Commitments and Contingencies.

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 noncompete 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 2022 and 2021 was $680,316.

Revenue recognition – Contract revenue includes janitorial fee sales, laundry processing fees, sales of printed materials, and government fees for services. Government fees for services includes employment services and kids' fees paid by King County and school districts. 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 2022 and 2021 was $263,058 and $301,693, respectively.

Income taxes – The IRS 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, 2022 and 2021. 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, 2022, 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, 2022 and 2021, NWC had no uncertain tax positions requiring accrual. NWC files an exempt organization and unrelated business income tax return with the IRS.

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 when 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, 2022, the Organization continues to experience the challenge of obtaining the right resources to meet its evolving business needs; the changing workforce and increased cost of talent impacts capacity and workload. Market volatility and the impact on investment balances and the potential recession are being closely monitored; however, 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 May 23, 2023, which is the date the consolidated financial statements were issued.

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 statements of financial position.

The Organization applies the provisions of FASB 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, 2022:

	Total	Level 1	Level 2	Level 3
Bonds	$ 11,344,039	$ 11,344,039	$ -	$ -
Equity securities	4,636,086	4,636,086	-	-
Money market funds	418,485	418,485	-	-
	$ 16,398,610	$ 16,398,610	$ -	$ -

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:

	Total	Level 1	Level 2	Level 3
Bonds	$ 15,052,647	$ 15,052,647	$ -	$ -
Equity securities	4,212,746	4,212,746	-	-
Money market funds	1,031,499	1,031,499	-	-
	$ 20,296,893	$ 20,296,893	$ -	$ -

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

	2022	2021
Interest and dividends	$ 438,434	$ 319,047
Unrealized gains on investments	(2,835,809)	473,620
	(2,397,375)	792,667
Less management fees	(17,937)	(17,287)
Total investment income	$ (2,415,312)	$ 775,380

Note 3 – Inventory

Inventory at December 31, 2022 and 2021, was $469,868 and $279,007, respectively. As of December 31, 2022 and 2021, no reserve for slow-moving inventory has been established.

Note 4 – Property and Equipment

Property and equipment consisted of the following at December 31:

	2022	2021
Property and equipment		
Buildings and improvements	$ 24,481	$ 24,481
Furniture and equipment	4,087,102	3,640,593
Leasehold improvements	50,716	50,716
Vehicles	700,141	590,975
Total property and equipment	4,862,440	4,306,765
Less accumulated depreciation	(3,403,464)	(2,915,595)
Property and equipment, net	$ 1,458,976	$ 1,391,170

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 totaling $381,508, and leasehold improvements totaling $3,420,707. The net book value of assets sold was $1,299,752.

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 was 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, 2022 and 2021, 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:

	2022	2021
Floating-rate, five-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 amortizaton and interest with a credit spread of 2.75% plus SOFR floor of .50%. At December 31, 2022, the annual interest rate was 7.0012%.	$ 2,832,000	$ 3,708,000
Less current portion	(912,000)	(876,000)
	$ 1,920,000	$ 2,832,000

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 repayment consists of monthly blended principal and interest payments, and the principal portion escalates annually over the course of the five-year term. As of the measurement period, the Organization received a waiver of its fixed coverage ratio and was in compliance with all of its bank covenants.

Interest expense was $195,733 and $192,956 for the years ended December 31, 2022 and 2021, 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, 2022, the balance of the legal holdback, $450,000, was disbursed to the sellers of Lithtex NW and the future "Annual Earn-Out" was adjusted to reflect the estimated liability more accurately.

Lease commitments – The Organization implemented ASC 842, *Lease Accounting*, on January 1, 2022. The lease accounting standard requires all leases longer than 12 months to be recorded as assets and liabilities on the consolidated statements of financial position. The Organization has 31 leases for office space, childcare space, warehouse space, and vehicles from unrelated parties in the Pacific Northwest and Spokane Valley, Washington, under operating leases expiring at various dates through January 2029. Variable expenses generally represent the Organization's share of the landlord's operating expenses, mileage charges for truck leases, or per-copy charges on the printer. The Organization determined the likelihood of exercising lease extension options on a per-lease basis as not reasonably certain. The risk-free rate was used as the discount rate in determining the ROU asset and lease liability at the commencement date of leases.

The weighted average discount rate for operating leases as of December 31, 2022, was 1.95%.

The weighted average remaining lease term for operating leases as of December 31, 2022, was 4.04 years.

Net lease 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 $2,719,515 for the year ended December 31, 2022, as included in operating expenses on the consolidated statement of activities. Total lease expense includes common area maintenance charges and other nonlease components, which were not significant for the year ended December 31, 2022.

Future minimum rental payments required under these operating leases are as follows for the years ending December 31:

2023	$ 1,729,365
2024	1,277,331
2025	1,007,801
2026	483,191
2027	399,277
Thereafter	472,712
	$ 5,369,677

After applying ASC 842:

	2022
Capitalized leases (net present value)	$ 5,369,677
Short-term portion of capital lease liability	$ 1,729,365
Long-term term portion of capital lease liability	3,640,312
	$ 5,369,677

As prior-year information was not restated for the adoption of ASC 842, total operating lease rental expense under ASC Topic 840 was $2,683,476 for the year ended December 31, 2021.

The annual future minimum lease payments as previously disclosed as of December 31, 2021, were as follows:

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

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

There were no net assets with donor restrictions of contributions restricted for programs and capital additions in 2022.

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 $429,754 and $436,823 for the years ended December 31, 2022 and 2021, 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 38% and 34% of total revenues for the years ended December 31, 2022 and 2021, respectively, and 56% and 55% of corresponding accounts receivable as of December 31, 2022 and 2021, respectively.

Note 11 – Line of Credit

On August 31, 2022, the Organization executed the First Amendment to Amend and Restated Loan Agreement. The amendment extended the maturity date of the revolving note to September 1, 2024, changed the interest rate, and adjusted the credit spread. The revolving credit agreement with WaFd Bank is in the amount of $4 million. The line carries a variable interest rate based on the one-month term Secured Overnight Financing Rate (SOFR) plus a credit spread of 2.82% and expires in September 2024. On December 31, 2022, the Organization had $1,000,000 of remaining availability on the line of credit. The SOFR interest rate at December 31, 2022, plus the credit spread was 7.0012%. The Organization was in compliance with the bank covenants at December 31, 2022.

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 $16,398,610 and $20,296,893 as of December 31, 2022 and 2021, respectively, in investments of varying maturity. The decrease in investments was caused by market volatility. 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 2021, the Organization completed the sale of the assets relating to PSLS to ImageFIRST Healthcare Laundry Specialists (Buyer) for a total consideration of $6.0 million. 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.

On closing, the Buyer disbursed $5,100,000 to Northwest Center and created an indemnity holdback of $900,000 for any legal matters arising from legal claims prior to the sale. The holdback is recorded in other assets on the consolidated balance sheet. In August 2022, the initial $450,000 legal holdback was received and the remaining $450,000, less any claims submitted, is to be disbursed in June 2023.

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

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