Report of Independent Auditors
and Consolidated Financial Statements

**Northwest Center**

December 31, 2023 and 2022

MOSSADAMS

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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, 2023 and 2022, 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 accompanying consolidated financial statements present fairly, in all material respects, the financial position of Northwest Center as of December 31, 2023 and 2022, 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 Consolidated 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 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated 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 6, 2024

# Consolidated Financial Statements

# Northwest Center
## Consolidated Statements of Financial Position
## December 31, 2023 and 2022

| | 2023 | 2022 |
|---|---|---|
| **ASSETS** | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | $ 692,876 | $ 1,479,618 |
| Contractual cash deposits | 75,127 | 326,196 |
| Accounts receivable, net | 12,547,816 | 11,576,856 |
| Employee retention tax credit receivable | 6,294,083 | - |
| Inventory | 398,349 | 469,868 |
| Other current assets | 544,123 | 505,244 |
| Total current assets | 20,552,374 | 14,357,782 |
| INVESTMENTS | 11,950,461 | 16,398,610 |
| PROPERTY and EQUIPMENT, net | 1,572,672 | 1,458,976 |
| RIGHT-OF-USE ASSETS | 3,027,470 | 5,369,677 |
| GOODWILL AND INTANGIBLES, net | 4,510,383 | 5,190,700 |
| TOTAL ASSETS | $ 41,613,360 | $ 42,775,745 |
| **LIABILITIES AND NET ASSETS** | | |
| CURRENT LIABILITIES | | |
| Accounts payable | $ 1,239,142 | $ 694,928 |
| Accrued expenses | 3,844,082 | 3,829,824 |
| Deferred revenue | 13,971 | 77,088 |
| Line of credit | 1,250,000 | 3,000,000 |
| Current portion of long-term debt | - | 912,000 |
| Current portion of lease liability | 1,176,327 | 1,729,365 |
| Current portion of deferred gain on disposal of property | 174,473 | 174,473 |
| Total current liabilities | 7,697,995 | 10,417,678 |
| LONG-TERM LIABILITIES | | |
| Long-term debt, less current portion | - | 1,920,000 |
| Lease liability, less current portion | 2,068,176 | 3,640,312 |
| Contingent obligations | 300,000 | 662,000 |
| Deferred gain on disposal of property, less current portion | 145,394 | 319,867 |
| Total long-term liabilities | 2,513,570 | 6,542,179 |
| Total liabilities | 10,211,565 | 16,959,857 |
| NET ASSETS | | |
| Without donor restrictions | 31,401,795 | 25,815,888 |
| Total without donor restrictions | 31,401,795 | 25,815,888 |
| Total net assets | 31,401,795 | 25,815,888 |
| TOTAL LIABILITIES AND NET ASSETS | $ 41,613,360 | $ 42,775,745 |

See accompanying notes.

# Northwest Center
## Consolidated Statements of Activities
## Years Ended December 31, 2023 and 2022

| | 2023 | 2022 |
|---|---|---|
| CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS | | |
| Revenues | | |
| Contract revenue | $ 57,207,586 | $ 49,561,380 |
| Sale of donated merchandise | 4,019,467 | 3,820,485 |
| Government fees for services | 9,155,840 | 8,569,411 |
| Tuition | 2,223,224 | 2,566,745 |
| Contributions | 1,671,086 | 2,916,449 |
| Recycling and other | 83,466 | 107,017 |
| Net assets released from donor restrictions | - | 281,525 |
| Total revenues | 74,360,669 | 67,823,012 |
| Expenses | | |
| Program services | | |
| Social enterprises | 46,797,513 | 38,787,377 |
| Donated merchandise program | 3,040,039 | 2,901,922 |
| Employment services | 7,061,539 | 7,892,083 |
| Child and family services | 8,337,210 | 8,421,039 |
| Total program services | 65,236,301 | 58,002,421 |
| Supporting services | 10,691,813 | 11,707,292 |
| Total expenses | 75,928,114 | 69,709,713 |
| Decrease in net assets from operations | (1,567,445) | (1,886,701) |
| Amortization of goodwill | (680,316) | (680,316) |
| Amortization of deferred gain | 174,473 | 174,473 |
| Investment income (loss), net | 1,137,951 | (2,415,312) |
| Other income | 15,161 | 74,325 |
| Employee retention tax credit | 6,294,083 | - |
| Contingent liability earnout reserve re-evaluation | 212,000 | 169,414 |
| Increase (decrease) in net assets without donor restrictions | 5,585,907 | (4,564,117) |
| CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS | | |
| Net assets released from donor restrictions | - | (281,525) |
| Increase (decrease) in net assets with donor restrictions | - | (281,525) |
| Increase (decrease) in net assets | 5,585,907 | (4,845,642) |
| NET ASSETS, beginning of year | 25,815,888 | 30,661,530 |
| NET ASSETS, end of year | $ 31,401,795 | $ 25,815,888 |

See accompanying notes.

# Northwest Center
## Consolidated Statements of Cash Flows
## Years Ended December 31, 2023 and 2022

| | 2023 | 2022 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Increase (decrease) in net assets | $ 5,585,907 | $ (4,845,642) |
| Adjustments to reconcile increase in net assets to net cash from operating activities | | |
| Depreciation and amortization | 1,280,274 | 1,217,393 |
| Gain on disposal of property and equipment | (376,692) | - |
| Net present value adjustment of contingent liabilities | (212,000) | - |
| Noncash operating lease expense | 2,279,623 | 831,480 |
| Realized and unrealized (gain) loss on investments | (779,428) | 2,835,809 |
| Changes in operating assets and liabilities | | |
| Accounts and pledges receivable, net | (970,960) | (1,566,833) |
| Employee retention tax credit receivable | (6,294,083) | - |
| Inventory | 71,519 | (190,861) |
| Other assets | (38,879) | 791,777 |
| Accounts payable | 544,214 | (439,880) |
| Accrued expenses and liabilities | 140,080 | 368,429 |
| Operating lease liabilities | (2,188,412) | (831,480) |
| Deferred revenue | (63,117) | (93,381) |
| Deferred gain on sale of building | (174,473) | (174,474) |
| Net cash from operating activities | (1,196,427) | (2,097,663) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of property and equipment | (336,961) | (604,883) |
| Purchase of investments | (395,351) | (687,526) |
| Proceeds from sale of investments | 5,622,928 | 1,750,000 |
| Net cash from investing activities | 4,890,616 | 457,591 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Borrowing (repayment) on line of credit | (1,750,000) | 3,000,000 |
| Payments on contingent liabilities | (150,000) | (319,414) |
| Payments on long-term debt obligations | (2,832,000) | (1,326,000) |
| Net cash from financing activities | (4,732,000) | 1,354,586 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (1,037,811) | (285,486) |
| CASH AND CASH EQUIVALENTS | | |
| Beginning of year | 1,805,814 | 2,091,300 |
| End of year | $ 768,003 | $ 1,805,814 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | |
| Right-of-use assets obtained in exchange for operating lease liabilities | $ 63,238 | $ 6,201,157 |
| Cash paid for interest | $ 280,109 | $ 195,733 |

See accompanying notes.

# Northwest Center
## Consolidated Statements of Functional Expenses
## Years Ended December 31, 2023 and 2022

| Year Ended December 31, 2023 | Total Program Services | Supporting Services: Administration | Supporting Services: Philanthropy | Total Supporting Services | Total Expenses |
|---|---|---|---|---|---|
| Salaries and benefits | $ 53,862,165 | $ 6,158,358 | $ 495,464 | $ 6,653,822 | $ 60,515,987 |
| Supplies | 3,873,349 | 91,207 | 66,440 | 157,647 | 4,030,996 |
| Facility expenses | 3,488,923 | 969,230 | 5,132 | 974,362 | 4,463,285 |
| Professional fees and contract services | 1,739,196 | 2,046,351 | 247,240 | 2,293,591 | 4,032,787 |
| Sales expense | 1,262,917 | 171,868 | 60,126 | 231,994 | 1,494,911 |
| Licenses, fees, and taxes | 203,408 | 102,018 | 1,592 | 103,610 | 307,018 |
| Computer software and equipment rental | 249,811 | 224,325 | 1,290 | 225,615 | 475,426 |
| In-kind contributions expense | - | - | - | - | - |
| Other | 5,871 | 555 | 1,321 | 1,876 | 7,747 |
| Total nonpersonnel expenses | 10,823,475 | 3,605,554 | 383,141 | 3,988,695 | 14,812,170 |
| Total expenses before interest expense and depreciation | 64,685,640 | 9,763,912 | 878,605 | 10,642,517 | 75,328,157 |
| Interest expense | - | - | - | - | - |
| Depreciation | 550,661 | 49,296 | - | 49,296 | 599,957 |
| Total functional expenses | $ 65,236,301 | $ 9,813,208 | $ 878,605 | $ 10,691,813 | $ 75,928,114 |

| Year Ended December 31, 2022 | Total Program Services | Supporting Services: Administration | Supporting Services: Philanthropy | Total Supporting Services | Total Expenses |
|---|---|---|---|---|---|
| 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 |

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.

*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. There were no net assets with donor restrictions as of December 31, 2023 or 2022.

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.

The Organization follows 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 $58,424.80 and $1,600,539 for the years ending December 31, 2023 and 2022, 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. As the term loan was repaid in 2023, this $250,000 minimum balance restriction is no longer required as of December 31, 2023.

**Adoption of accounting pronouncement** – In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Financial Instruments—Credit Losses,* which introduced an expected credit loss methodology for the measurement and recognition of credit losses on most financial assets, include trade accounts receivable. The expected credit loss methodology under ASU 2016-13 is based on historical experience, current conditions, and reasonable and supportable forecasts, and replaces the probable/incurred loss model for measuring and recognizing expected losses under current U.S. GAAP. The ASU also requires disclosure of information regarding how an entity developed its allowance, including changes in the factors that influenced management's estimate of expected credit losses and the reasons for those changes. The ASU was adopted by Northwest Center on January 1, 2023 and did not have a material impact on management's estimate of the allowance for doubtful accounts over accounts receivable.

**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 credit losses was $30,650 and $128,000 at December 31, 2023 and 2022, respectively.

**Employee retention tax credit** – In response to the coronavirus emergency, the Coronavirus Aid, Relief and Economic Security Act (CARES Act) was signed into law on March 27,2020. Effective January 1, 2021, the Consolidated Appropriations Act increased the payroll tax credit from 50% to 70% up to $10,000 of qualified wages per quarter per employee through June 30, 2021 for eligible employers. In connection therewith, such payroll tax credits through June 30, 2021, totaled $6,294,083 which are recorded as a receivable on the consolidated statement of financial position as of December 31, 2023. On March 11, 2021, the American Rescue Plan extended the payroll tax credits through December 31, 2021 for eligible employers. The Infrastructure Investment and Jobs Act signed on November 15, 2021, retroactively terminates the employee retention tax credit to apply only through September 30, 2021, rather than December 31, 2021, as enacted by the American Rescue Plan Act.

**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 statements 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 2023 and 2022 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 2023 and 2022 was $324,205 and $263,058, 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, 2023 and 2022. NWC has a net operating loss of approximately $3,000,000 to offset future net unrelated business income. The carryforwards expire in approximately 5 to 15 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, 2023, 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, 2023 and 2022, 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.

**Reclassifications** – Certain reclassifications have been made to the prior year consolidated financial statements to conform to the current year presentation. Such reclassifications have no effect on previously reported change in net assets.

**Subsequent events** – Subsequent events are events or transactions that occur after the consolidated statements 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 statements 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 statements of financial position but arose after the consolidated statements of financial position date and before the consolidated financial statements are issued.

Subsequent to December 31, 2023, 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 6, 2024, 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, 2023:

| | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Bonds | $ 8,799,149 | $ 8,799,149 | $ - | $ - |
| Equity securities | 2,349,019 | 2,349,019 | - | - |
| Money market funds | 802,293 | 802,293 | - | - |
| Total | $ 11,950,461 | $ 11,950,461 | $ - | $ - |

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 | - | - |
| Total | $ 16,398,610 | $ 16,398,610 | $ - | $ - |

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

| | 2023 | 2022 |
|---|---|---|
| Interest and dividends | $ 395,351 | $ 438,434 |
| Unrealized gains on investments | 779,428 | (2,835,809) |
| | 1,174,779 | (2,397,375) |
| Less management fees | (36,828) | (17,937) |
| Total investment income | $ 1,137,951 | $ (2,415,312) |

**Note 3 – Inventory**

Inventory at December 31, 2023 and 2022, was $398,349 and $469,868, respectively. As of December 31, 2023 and 2022, no reserve for slow-moving inventory has been established.

### Note 4 – Property and Equipment

Property and equipment consisted of the following at December 31:

| | 2023 | 2022 |
|---|---|---|
| Property and equipment | | |
| Furniture and equipment | $ 4,105,400 | $ 4,087,102 |
| Vehicles | 700,141 | 700,141 |
| Leasehold improvements | 50,716 | 50,716 |
| Buildings and improvements | 17,639 | 24,481 |
| Total property and equipment | 4,873,896 | 4,862,440 |
| Less accumulated depreciation | (3,301,224) | (3,403,464) |
| Property and equipment, net | $ 1,572,672 | $ 1,458,976 |

### 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, 2023 and 2022, 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:

| | 2023 | 2022 |
|---|---|---|
| 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 amortization and interest with a credit spread of 2.75% plus SOFR floor of .50%. | $ - | $ 2,832,000 |
| Less current portion | - | (912,000) |
| Total | $ - | $ 1,920,000 |

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 was fully repaid in August 2023.

Interest expense was $243,596 and $195,733 for the years ended December 31, 2023 and 2022, 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 33 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, 2023 and 2022, was 1.31% and 1.95%, respectively.

The weighted average remaining lease term for operating leases as of December 31, 2023 and 2022, was 3.32 and 4.04 years, respectively.

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 $2,958,634 and $2,719,515 for the years ended December 31, 2023 and 2022, respectively, as included in operating expenses on the consolidated statements of activities.

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

| | |
|---|---|
| 2024 | $ 1,210,880 |
| 2025 | 991,376 |
| 2026 | 518,187 |
| 2027 | 400,581 |
| 2028 | 145,674 |
| Thereafter | 52,409 |
| Total undiscounted cash flows | 3,319,107 |
| Less present value discount | (74,604) |
| Total lease liabilities | 3,244,503 |
| Less current portion | (1,176,327) |
| Long-term lease liabilities | $ 2,068,176 |

Cash paid for amounts included in the measurement of operating lease liabilities was $2,188,412 and $831,480 for the years ended December 31, 2023 and 2022, respectively.

**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 or 2023.

**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 $476,371 and $429,754 for the years ended December 31, 2023 and 2022, 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 43% and 38% of total revenues for the years ended December 31, 2023 and 2022, respectively, and 62% and 56% of corresponding accounts receivable as of December 31, 2023 and 2022, 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, 2023, the Organization had $2,750,000 of remaining availability on the line of credit. The SOFR interest rate at December 31, 2023, plus the credit spread was 8.17%. The Organization was in compliance with the bank covenants at December 31, 2023.

### 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 $11,950,461 and $16,398,610 as of December 31, 2023 and 2022, respectively, in investments of varying maturity. The decrease in investments was the result of selling investments in the amount of $5,621,994 in favor of liquidating debt since interesting being paid exceeded interest being earned. 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 statement of financial position. In August 2022, the initial $450,000 legal holdback was received, $150,000 was received during 2023, and the remaining $300,000, less any claims submitted, is to be disbursed in June 2024.

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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