

Northwest Youth Services

Financial Statements with
Independent Auditor's Report

Year Ended December 31, 2022
(with Summarized Comparative Totals
for Year Ended December 31, 2021)

Larson Gross 

Northwest Youth Services

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Independent Auditor's Report

To the Board of Directors
Northwest Youth Services

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Northwest Youth Services (a nonprofit organization), which comprise the statement of financial position as of December 31, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Northwest Youth Services as of December 31, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Youth Services 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 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 Youth Services' ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 generally accepted auditing standards and Government Auditing Standards 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 financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, 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 Youth Services’ 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 Youth Services’ 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.

Report on Summarized Comparative Information

We have previously audited Northwest Youth Services’ 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 6, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2023, on our consideration of Northwest Youth Services' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Northwest Youth Services' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Northwest Youth Services' internal control over financial reporting and compliance.

Larson Gross PLLC

Bellingham, Washington
September 29, 2023

Northwest Youth Services

Statement of Financial Position

December 31, 2022

(With Summarized Comparative Totals for December 31, 2021)

| | <u>2022</u> | <u>2021</u> |
|--|---------------------|---------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 847,040 | \$ 1,011,840 |
| Grants receivable | 664,982 | 530,443 |
| Pledges receivable, net | 156,000 | 171,000 |
| Rent receivable, net | 29,589 | 29,589 |
| Prepaid expenses | <u>85,776</u> | <u>82,188</u> |
| Total current assets | 1,783,387 | 1,825,060 |
| Non-current Assets | | |
| Long-term pledges receivable, net | 6,000 | 17,000 |
| Long-term rent receivable, net | 150,414 | 180,003 |
| Property and equipment, net | 1,828,760 | 1,732,856 |
| Right-of-use assets | 448,099 | - |
| Investment in assets held by Whatcom Community Foundation | <u>17,997</u> | <u>22,463</u> |
| Total assets | <u>\$ 4,234,657</u> | <u>\$ 3,777,382</u> |
| Liabilities and Net Assets | | |
| Current liabilities | | |
| Accounts payable | \$ 26,410 | \$ 37,725 |
| Accrued expenses | 295,116 | 319,409 |
| Current portion of notes payable | 944,400 | 943,300 |
| Current portion of operating lease liabilities | <u>152,077</u> | <u>-</u> |
| Total current liabilities | 1,418,003 | 1,300,434 |
| Notes payable, net of current portion | 314,581 | 327,852 |
| Operating lease liabilities, net of current portion | <u>302,236</u> | <u>-</u> |
| Total liabilities | 2,034,820 | 1,628,286 |
| Net assets | | |
| Without donor restrictions | | |
| Undesignated | 415,688 | 707,729 |
| Board-designated | 201,818 | 148,274 |
| Net investment in property and equipment | <u>569,779</u> | <u>461,704</u> |
| Total without donor restrictions | 1,187,285 | 1,317,707 |
| With donor restrictions | <u>1,012,552</u> | <u>831,389</u> |
| Total net assets | <u>2,199,837</u> | <u>2,149,096</u> |
| Total liabilities and net assets | <u>\$ 4,234,657</u> | <u>\$ 3,777,382</u> |

Northwest Youth Services

Statement of Activities

Year Ended December 31, 2022

(With Summarized Comparative Totals for Year Ended December 31, 2021)

| | 2022 | | | 2021 |
|---|---------------------------------------|------------------------------------|---------------------|---------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total | Total |
| Revenue and support | | | | |
| Government grants and contracts | \$ 3,178,635 | \$ - | \$ 3,178,635 | \$ 3,075,924 |
| Grants and contributions – individuals, businesses, and organizations | 1,273,779 | 704,516 | 1,978,295 | 1,607,904 |
| In-kind contributions | 61,712 | 13,491 | 75,203 | 77,344 |
| Fundraising activities, net of direct expenses of \$15,070 and \$12,631 for 2022 and 2021, respectively | (103) | - | (103) | 17,869 |
| Other income (expense) | (34) | - | (34) | 5,217 |
| Net assets released from restrictions | <u>536,844</u> | <u>(536,844)</u> | <u>-</u> | <u>-</u> |
| Total revenue and support | 5,050,833 | 181,163 | 5,231,996 | 4,784,258 |
| Functional expenses | | | | |
| Program services | 3,942,878 | - | 3,942,878 | 3,789,717 |
| Management and general | 1,013,456 | - | 1,013,456 | 950,263 |
| Fundraising | <u>224,921</u> | <u>-</u> | <u>224,921</u> | <u>282,113</u> |
| Total functional expenses | <u>5,181,255</u> | <u>-</u> | <u>5,181,255</u> | <u>5,022,093</u> |
| Change in net assets | (130,422) | 181,163 | 50,741 | (237,835) |
| Net assets – beginning of year | <u>1,317,707</u> | <u>831,389</u> | <u>2,149,096</u> | <u>2,386,931</u> |
| Net assets – end of year | <u>\$ 1,187,285</u> | <u>\$ 1,012,552</u> | <u>\$ 2,199,837</u> | <u>\$ 2,149,096</u> |

Northwest Youth Services

Statement of Functional Expenses

Year Ended December 31, 2022

(With Summarized Comparative Totals for Year Ended December 31, 2021)

| | 2022 | | | 2021 | |
|--------------------------------|-------------------------|-------------------------------|--------------------|---------------------|---------------------|
| | Program Services | Management and General | Fundraising | Total | Total |
| Salaries and wages | \$ 2,070,378 | \$ 672,254 | \$ 170,872 | \$ 2,913,504 | \$ 2,642,363 |
| Payroll taxes | 207,024 | 66,905 | 17,007 | 290,936 | 255,014 |
| Employee benefits | 178,791 | 74,170 | 8,796 | 261,757 | 237,504 |
| Total payroll related expenses | 2,456,193 | 813,329 | 196,675 | 3,466,197 | 3,134,881 |
| Client occupancy | 509,229 | 1,834 | - | 511,063 | 776,884 |
| Professional fees | 268,433 | 13,438 | - | 281,871 | 304,379 |
| Occupancy | 195,258 | 28,095 | 5,458 | 228,811 | 173,901 |
| Client assistance – other | 155,048 | 501 | 682 | 156,231 | 158,449 |
| In-kinds | 61,874 | 42,559 | 359 | 104,792 | 106,933 |
| Supplies | 53,805 | 38,105 | 12,033 | 103,943 | 80,557 |
| Depreciation | 51,937 | 13,438 | - | 65,375 | 64,999 |
| Insurance | 51,954 | 6,709 | 3,581 | 62,244 | 30,653 |
| Telephone | 44,394 | 5,257 | 2,718 | 52,369 | 40,356 |
| Travel | 23,481 | 9,831 | 95 | 33,407 | 20,725 |
| Office expense | 16,381 | 11,129 | 1,372 | 28,882 | 37,855 |
| Equipment and repairs | 10,951 | 10,080 | 333 | 21,364 | 42,557 |
| Miscellaneous | 10,433 | 8,048 | 1,370 | 19,851 | 18,678 |
| Stipends, summer youth | 17,551 | - | - | 17,551 | 5,782 |
| Conferences and training | 13,892 | 1,272 | 150 | 15,314 | 12,747 |
| Interest | 2,064 | 9,831 | 95 | 11,990 | 11,757 |
| | <u>\$ 3,942,878</u> | <u>\$ 1,013,456</u> | <u>\$ 224,921</u> | <u>\$ 5,181,255</u> | <u>\$ 5,022,093</u> |

Northwest Youth Services

Statement of Cash Flows

Year Ended December 31, 2022

(With Summarized Comparative Totals for Year Ended December 31, 2021)

| | <u>2022</u> | <u>2021</u> |
|--|-------------------|---------------------|
| Cash flows from operating activities | | |
| Change in net assets | \$ 50,741 | \$ (237,835) |
| Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities: | | |
| Net (appreciation) depreciation in investment in assets held by Whatcom Community Foundation | 4,466 | (4,076) |
| Expense of right to use noncash assets, net of discount | 35,803 | 29,589 |
| Depreciation | 65,375 | 64,999 |
| Loss on disposal of property and equipment | - | 3,129 |
| (Increase) decrease in assets | | |
| Grants receivable | (134,539) | 112,739 |
| Pledges receivable | 26,000 | 171,588 |
| Prepaid expenses | (3,588) | (26,450) |
| Increase (decrease) in liabilities | | |
| Accounts payable | (11,315) | (24,916) |
| Accrued expenses | (24,293) | 60,520 |
| | <u>8,650</u> | <u>149,287</u> |
| Net cash provided by operating activities | 8,650 | 149,287 |
| Cash flows from investing activities | | |
| Purchase of property and equipment | <u>(161,279)</u> | <u>(48,926)</u> |
| | (161,279) | (48,926) |
| Net cash used in investing activities | (161,279) | (48,926) |
| Cash flows from financing activities | | |
| Repayment of notes payable | <u>(12,171)</u> | <u>(12,404)</u> |
| | (12,171) | (12,404) |
| Net cash used in financing activities | (12,171) | (12,404) |
| Net change in cash and cash equivalents | (164,800) | 87,957 |
| Cash and cash equivalents – beginning of year | <u>1,011,840</u> | <u>923,883</u> |
| Cash and cash equivalents – end of year | <u>\$ 847,040</u> | <u>\$ 1,011,840</u> |
| Supplemental Disclosure of Cash Flow Information | | |
| Cash paid during the year for interest | <u>\$ 11,990</u> | <u>\$ 11,757</u> |
| Noncash investing and financing activities: | | |
| Purchase of property with note payable | <u>\$ -</u> | <u>\$ 935,000</u> |

Notes to Financial Statements

December 31, 2022 and 2021

Note 1 – Summary of Significant Accounting Policies

Organization – Northwest Youth Services (the Organization) is a Washington State nonprofit entity founded in 1976. The Organization’s mission is to collaborate with at-risk, runaway, and homeless youth to foster self-reliance. Housing programs, vocational opportunities, and outreach services are provided by the Organization in order to further their mission.

Basis of accounting – The Organization prepares its financial statements in accordance with accounting principles generally accepted in the United States of America, which involves the application of accrual accounting; accordingly, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

Basis of presentation – 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 restrictions and over which the Board of Directors has discretionary control.

Net assets with donor restrictions – Net assets that have been restricted by the donor for specific purposes or are time restricted, including contributions that have been restricted by the donor that stipulate the resources be maintained in perpetuity, but permit the Organization to use or expend part or all of the income derived from the donated assets for either specific or unspecific purposes.

Revenues are reported as increases in net assets without donor restrictions unless 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 investments and other 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. Expirations of net assets with donor restrictions (i.e. the donor stipulated purpose has been fulfilled or the stipulated time period has lapsed) are reported as reclassifications between the applicable classes of net assets. Contributions that are restricted by donors are reported as increases in net assets without donor restrictions if the restrictions expire in the reporting period in which the contributions are recognized.

Cash and cash equivalents – Cash consists of cash held in bank accounts and short-term investments, such as money market accounts, with original maturity dates of three months or less for statement of cash flow purposes. The Organization maintains its cash in bank accounts that may exceed federal insured limits at times during the year. The Organization has not experienced any losses in these accounts, and management does not believe it is exposed to any significant credit risk.

Grants receivable – Grants receivable are recorded at their net realizable value. Net realizable value is equal to the gross amount of receivables less an estimated allowance for doubtful accounts. Management of the Organization bases its estimates of doubtful accounts on several factors. These factors include the Organization’s prior experience collecting grants receivable, the aging of the grants receivable at year-end, and management’s appraisal of current economic conditions. Based on the above factors, management considers all grants receivable to be fully collectible and, therefore, has not made any allowance for uncollectible grants.

Of the Organization’s total grants receivable at December 31, 2022 and 2021, 56% and 64% were due from three and four government agencies, respectively.

Notes to Financial Statements

December 31, 2022 and 2021

Note 1 – Summary of Significant Accounting Policies – (Continued)

Pledges receivable – Pledges receivable represent unconditional promises to give and are stated at their net realizable value. Pledges extending beyond one year are initially recorded at fair value, and in arriving at fair value, management has discounted these contributions using donor-specific discount rates. Amortization of the fair value discounts is included in contribution revenue. In addition, pledges are recorded net of an allowance for uncollectible pledges. The allowance for uncollectible pledges is determined by management and management determined that no such allowance was required as of December 31, 2022 nor 2021, as all pledges are expected to be fully collectible.

Of the Organization's total pledges receivable at December 31, 2022 and 2021, 93% and 80% were due from one and two donors, respectively.

Property and equipment – The Organization capitalizes all property and equipment acquisitions in excess of \$2,500. Property and equipment are recorded at cost. Additions, improvements, or expenditures which add to productive capacity or extend the life of an asset are capitalized. Expenditures for repairs and maintenance are charged to operations as incurred. Depreciation is recorded using the straight-line method over estimated useful lives of the assets, which range from 4 to 39 years.

Investment in assets held by Whatcom Community Foundation – The Organization holds an interest in the future return on investments held by Whatcom Community Foundation (WCF). In accordance with generally accepted accounting principles, the Organization presents its investment balance as donor restricted net assets. Distributions from the fund are paid to the Organization as requested by the Organization and approved by the WCF. Distributions are calculated by WCF as a discretionary percentage of the fair market value of the fund held by WCF.

Government grants and contracts – The Organization receives support from various federal, state, and local government agencies. Grant receipts are subject to restrictions on the use of funds placed by the grantor. The Organization administers these funds in accordance with grantor guidelines. Grant revenue under cost reimbursement arrangements is recognized as expenses are incurred. Amounts incurred but not yet reimbursed are reported as grants receivable.

Contributions – Contribution revenue is recognized in the period received or when an unconditional promise to give is made, whichever is earlier. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

Donated goods, services, and rent – Donations of supplies, equipment, and other goods, services, and rent are recorded at fair value on the date of receipt. Donated services are recognized if services received (a) create or enhance nonfinancial assets or (b) require specialized skills, and are provided by individuals possessing those skills and would typically need to be purchased if not donated. Many volunteers have donated significant amounts of time to the Organization's activities. The services of these volunteers are not recorded in the accompanying financial statements as they do not meet the criteria for recognition.

Notes to Financial Statements

December 31, 2022 and 2021

Note 1 – Summary of Significant Accounting Policies – (Continued)

Functional allocation of expenses – The costs of providing various programs and other activities have been summarized on the functional basis in the accompanying statement of activities and the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, the expenses require allocation on a reasonable basis that is consistently applied. Salaries, employee taxes and employee benefits are allocated based on time and effort. All other expenses are based on estimates of usage utilizing square footage, mileage and other metrics.

Federal income tax – The Organization is a nonprofit entity exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision of income tax is necessary. The tax returns for the prior three fiscal years remain subject to examination by major tax jurisdictions.

Leases – The Financial Accounting Standards Board (FASB) issued new guidance that created Topic 842, *Leases*, in the Accounting Standards Codification (ASC). Topic 842 supersedes previous guidance in FASB ASC 840, *Leases*, and is intended to provide enhanced transparency and comparability by requiring lessees to record right-of-use assets and corresponding lease liabilities on the balance sheet. The Organization adopted the new guidance as of January 1, 2022, the effective date, utilizing the optional transition method with financial statements prior to the effective date presented in accordance with previous guidance. The FASB made available several practical expedients in adopting the amended lease accounting guidance. The Organization elected the package of practical expedients within the new standard, which among other things, allowed it to carry forward the historical lease classification. The Organization elected the practical expedient that allows the combination of both lease and non-lease components as a single component and account for it as a lease for all classes of underlying assets. The adoption of FASB ASC 842 resulted in the recognition of right-of-use assets and operating lease liabilities of \$510,502 as of January 1, 2022. The adoption of Topic 842 did not have a material impact on the Organization's results of operations or cash flows for the year ended December 31, 2022.

The Organization determines if an arrangement contains a lease at inception based on whether the Organization has the right to control the asset during the contract period and other facts and circumstances. The Organization elected not to record right-of-use assets and lease liabilities for leases with an initial term of 12 months or less and recognizes lease expense on a straight-line basis over the lease term.

For leases with a term greater than 12 months, the Organization records a lease liability based on the present value of lease payments over the expected lease term. The Organization calculates the present value of lease payments using a risk-free discount rate determined using a period comparable with that of the lease term. The Organization records a corresponding right-of-use lease asset based on the lease liability, adjusted for any lease incentives received and any initial direct costs paid to the lessor prior to the lease commencement date.

After the initial recognition, the lease liability is measured as the present value of the unpaid lease payments using the discount rate determined when the lease was initially recognized. The right-of-use asset, unless previously impaired, is measured as the amount of lease liability adjusted for: (a) prepaid or accrued lease payments, (b) the remaining balance of any lease incentives received, (c) unamortized initial direct lease costs, and (d) any current impairment of the right-of-use asset.

Notes to Financial Statements

December 31, 2022 and 2021

Note 1 – Summary of Significant Accounting Policies – (Continued)

Use of estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. Such estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications – Certain reclassifications have been made to the prior year’s financial statements to conform to the current year’s financial statement presentation.

Comparative financial information –The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization’s financial statements for the year ended December 31, 2021, from which the summarized information was derived.

Subsequent events – In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through September 29, 2023, the date the financial statements were available to be issued.

Note 2 – Availability and Liquidity

The following represents the Organization’s financial assets available for general expenditure during the next year as of December 31:

| | <u>2022</u> | <u>2021</u> |
|---|---------------------|---------------------|
| Financial assets at year end | | |
| Cash and cash equivalents | \$ 847,040 | \$ 1,011,840 |
| Grants receivable | 664,982 | 530,443 |
| Pledges receivable | <u>162,000</u> | <u>188,000</u> |
| Total financial assets | <u>\$ 1,674,022</u> | <u>\$ 1,730,283</u> |
| | <u>2022</u> | <u>2021</u> |
| Less amounts not available for general expenditure within one year | | |
| Non current portion of pledges receivable | \$ (6,000) | \$ (17,000) |
| Donor-restricted for specific purpose | (498,577) | (336,905) |
| Donor-restricted to be held in perpetuity | <u>(17,997)</u> | <u>(22,463)</u> |
| | <u>(522,574)</u> | <u>(376,368)</u> |
| Financial assets available to meet general expenditures over the next twelve months | <u>\$ 1,151,448</u> | <u>\$ 1,353,915</u> |

Notes to Financial Statements

December 31, 2022 and 2021

Note 2 – Availability and Liquidity – (Continued)

The Organization has certain board-designated assets limited to use, but which are available for general expenditure within one year in the normal course of operations. Accordingly, these assets have been included in the quantitative information above. The Organization has certain donor-restricted assets limited to use, which are not available for general expenditure within one year in the normal course of operations. Accordingly, these assets have been excluded in the quantitative information above. Additionally, certain investment assets held by Whatcom Community Foundation are restricted in perpetuity. These assets limited to use are not available for general expenditure within the next year.

As part of the Organization’s liquidity management plan, cash in excess of daily requirements may be split equally between paying down long-term debt and building three months of annual budget reserves maintained in short-term investments.

Note 3 – Pledges Receivable

During 2016, the Organization commenced a campaign to raise funds for a collaboration project with The Opportunity Council (the Council), a nonprofit organization. The collaboration project is referred to as “22 North”. The Organization sold land located at 1022 North State Street in October 2017. Concurrent with the land sale, the Organization made a programmatic contribution totaling \$430,000 to partially finance the construction of a building on the land. 22 North was finalized in 2018 and resulted in the Organization leasing 20 studio apartments to young adults experiencing homelessness and offering the wrap-around support needed to help these young adults meet their goals. The planned collaboration also allowed the Organization to lease office space in the new building from the Council to provide services related to its exempt purpose.

Pledges receivable consist of the following at December 31:

| | <u>2022</u> | <u>2021</u> |
|---|------------------|------------------|
| Campaign pledges receivable outstanding | \$ - | \$ 5,000 |
| Other pledges receivable outstanding | <u>162,000</u> | <u>183,000</u> |
| Total pledges receivable, net | 162,000 | 188,000 |
| Less: Current portion of pledges receivable | <u>(156,000)</u> | <u>(171,000)</u> |
| Noncurrent portion of pledges receivable | <u>\$ 6,000</u> | <u>\$ 17,000</u> |

Note 4 – Rent Receivable

The Organization maintains a 10 year lease with a church in Bellingham, Washington for property to house the Organization’s program, The Ground Floor. The Ground Floor is a day-use center for at-risk, runaway and homeless youth ages 24 and under. The Organization has agreed to run this program for the entirety of the lease term. The Organization is not required to make any rent payments under the terms of this lease. As such, the Organization has recognized in-kind contribution revenue, rent expense, and rent receivable based on the estimated fair value of the benefit to be received by the Organization over the term of the lease.

Northwest Youth Services

Notes to Financial Statements

December 31, 2022 and 2021

Note 4 – Rent Receivable – (Continued)

The rent receivable related to this lease is expected to be collected through use of the property as follows:

| | <u>2022</u> | <u>2021</u> |
|--|-------------------|-------------------|
| Within one year | \$ 43,080 | \$ 43,080 |
| In one to five years | 172,320 | 172,320 |
| Thereafter | <u>46,670</u> | <u>89,750</u> |
| Total rent receivable | 262,070 | 305,150 |
| Less: Unamortized discount to fair value (at 8%) | <u>(82,067)</u> | <u>(95,558)</u> |
| Total rent receivable, net | 180,003 | 209,592 |
| Less: Current portion of rent receivable | <u>(29,589)</u> | <u>(29,589)</u> |
| Noncurrent portion of rent receivable | <u>\$ 150,414</u> | <u>\$ 180,003</u> |

Note 5 – Property and Equipment

Property and equipment consists of the following at December 31:

| | <u>2022</u> | <u>2021</u> |
|-------------------------------|---------------------|---------------------|
| Buildings | \$ 2,184,436 | \$ 2,026,157 |
| Land | 324,490 | 324,490 |
| Vehicles | 52,317 | 49,317 |
| Equipment | 30,192 | 30,192 |
| Computer software | <u>19,994</u> | <u>19,994</u> |
| | 2,611,429 | 2,450,150 |
| Less accumulated depreciation | <u>(782,669)</u> | <u>(717,294)</u> |
| | <u>\$ 1,828,760</u> | <u>\$ 1,732,856</u> |

Depreciation expense totaled \$65,375 and \$64,999 for the years ended December 31, 2022 and 2021, respectively.

Note 6 – Line-of-Credit

The Organization had a line-of-credit with a bank for up to \$100,000. The line-of-credit was secured by a commercial security agreement to lender, and interest was payable monthly at the bank's prime rate plus 4% (resulting in a rate of 7.25% at December 31, 2021). The line of credit was closed in May 2022.

In June 2022, the Organization opened a line-of-credit with a bank of up to \$100,000 with maturity date of May 2023. The line-of-credit is secured by assets of the Organization, and interest is payable monthly at the bank's prime rate plus 2% (resulting in a rate of 9.50% at December 31, 2022) with a 4.75% interest rate floor. In June 2023, the Organization signed a renewed line-of-credit agreement for up to \$200,000 with a maturity date of December 2024. The line-of-credit is secured by assets of the Organization, and interest is payable monthly at the bank's prime rate plus 2% with a 4.50% interest rate floor.

Northwest Youth Services

Notes to Financial Statements

December 31, 2022 and 2021

Note 6 – Line-of-Credit – (Continued)

There were no amounts outstanding at December 31, 2022 and 2021.

Note 7 – Long-Term Debt

The Organization has a zero percent interest deferred loan from the City of Bellingham totaling \$53,132 as of December 31, 2022 and 2021. The purpose of this loan was to fund the new addition on the building from which the Organization operates its services. The addition was completed in 2013. The loan requires the Organization to continue utilizing the building for the benefit of individuals meeting certain housing and urban development requirements and does not require repayment until such time as the Organization sells, transfers, or refinances the building or ceases to serve low or moderate income individuals. If the Organization were to move to a different facility and sell the building to another nonprofit agency, the loan could be assumed by that nonprofit agency.

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

| | <u>2022</u> | <u>2021</u> |
|---|-------------------|-------------------|
| Note payable to the City of Bellingham, full principal balance and accrued interest at 1% due March 2023, in February 2023 the Organization received another extension, making the loan due on demand, secured by real property | \$ 935,000 | \$ 935,000 |
| Note payable to Peoples Bank, payments of \$2,215 per month, including interest at 5.39% through November 2027, the date of maturity, secured by a deed of trust on property | 270,849 | 283,020 |
| Note payable to the City of Bellingham, interest and payments deferred until the property is sold, transferred, or refinanced or no longer providing benefits to low or moderate income persons | <u>53,132</u> | <u>53,132</u> |
| | 1,258,981 | 1,271,152 |
| Amount due within one year | <u>(944,400)</u> | <u>(943,300)</u> |
| | <u>\$ 314,581</u> | <u>\$ 327,852</u> |

Future annual principal payments on long-term debt are as follows for the years ending December 31:

| | |
|------------|---------------------|
| 2023 | \$ 944,400 |
| 2024 | 10,000 |
| 2025 | 10,700 |
| 2026 | 11,400 |
| 2027 | 229,400 |
| Thereafter | <u>53,081</u> |
| | <u>\$ 1,258,981</u> |

Northwest Youth Services

Notes to Financial Statements

December 31, 2022 and 2021

Note 8 – Board-Designated Net Assets

Board designated net assets consist of the following as of December 31:

| | <u>2022</u> | <u>2021</u> |
|---|-------------------|-------------------|
| Main office repair/IT infrastructure capital expenses | \$ 54,579 | \$ 54,711 |
| Board reserves | 147,239 | 93,563 |
| Total | <u>\$ 201,818</u> | <u>\$ 148,274</u> |

Note 9 – Net Assets with Donor Restrictions

Net assets with donor restrictions consist of the following at December 31:

| | <u>2022</u> | <u>2021</u> |
|---|---------------------|-------------------|
| Time restricted – rent receivable | \$ 180,003 | \$ 209,592 |
| Street Outreach Program | 171,972 | 93,957 |
| Time restricted – other | 162,000 | 188,000 |
| Campaign – 22 North Project | 110,036 | 156,089 |
| Queer Youth Program | 108,229 | 22,872 |
| Skagit Engagement | 91,084 | - |
| Anchor Community Initiative | 62,887 | 77,016 |
| Held in perpetuity with Whatcom County Foundation | 56,328 | - |
| Positive Adolescent Development Program | 25,000 | 41,524 |
| Youth Action Committee | 17,997 | 22,463 |
| Whatcom Vocational Program | 16,700 | 19,876 |
| Behavioral Health | 10,316 | - |
| | <u>\$ 1,012,552</u> | <u>\$ 831,389</u> |

Note 10 – Government Grants and Contracts

Government grants and contracts revenue was received from the following government sources during the years ended December 31:

| | <u>2022</u> | <u>2021</u> |
|--|---------------------|---------------------|
| Whatcom County | \$ 901,581 | \$ 662,366 |
| Washington State Department of Commerce | 496,750 | 886,760 |
| City of Bellingham | 455,526 | 233,394 |
| U.S. Department of Housing and Urban Development | 444,779 | 484,713 |
| Skagit County | 406,388 | 399,734 |
| U.S. Department of Health and Human Services | 305,498 | 356,676 |
| Washington Health Care Authority | 168,113 | 52,281 |
| | <u>\$ 3,178,635</u> | <u>\$ 3,075,924</u> |

Notes to Financial Statements

December 31, 2022 and 2021

Note 11 – Operating Leases

The Organization leases office facilities under operating leases expiring through August 2026. Some office leases require the Organization to pay executory costs (such as real estate taxes and insurance) and provides for a renewal option. The Organization has not included the renewal option in its calculation of the right-of-use asset or lease liability as it is not reasonably certain to exercise the option. The Organization leases additional properties, on behalf of the youth it serves, in Whatcom and Skagit Counties under short-term operating lease agreements, including some that are on a month-to-month basis.

Maturities of lease liabilities as of December 31, 2022, were as follows:

| | |
|-----------------------|-------------------|
| 2023 | \$ 155,049 |
| 2024 | 158,572 |
| 2025 | 88,528 |
| 2026 | 47,596 |
| 2027 | <u>10,120</u> |
| Total lease payments | 459,865 |
| Less imputed interest | <u>(5,552)</u> |
| Lease liabilities | 454,313 |
| Less current portion | <u>(152,077)</u> |
| Long-term portion | <u>\$ 302,236</u> |

A summary of lease costs and related information follows for the year ended December 31, 2022:

| | |
|---|-------------------|
| Lease cost | |
| Operating lease cost | \$ 148,425 |
| Variable lease cost | 12,236 |
| Short-term lease cost | <u>461,786</u> |
| Total lease cost | <u>\$ 622,447</u> |
| Other information | |
| Right-of-use assets obtained in exchange for new lease liabilities | <u>\$ 82,608</u> |
| Cash paid for amounts included in the measurement of operating leases | <u>\$ 141,278</u> |
| Weighted average remaining lease term | 4.9 years |
| Weighted average discount rate | 0.780% |

Future minimum lease payments under noncancelable operating leases with lease terms in excess of one year at December 31, 2021 under previous guidance:

| | |
|------|-------------------|
| 2022 | \$ 307,578 |
| 2023 | 195,854 |
| 2024 | 175,458 |
| 2025 | 84,586 |
| 2026 | <u>31,919</u> |
| | <u>\$ 795,395</u> |

Notes to Financial Statements

December 31, 2022 and 2021

Note 11 – Operating Leases – (Continued)

Rent expense for the year ended December 31, 2021, recognized under previous guidance, totaled \$776,884.

Note 12 – In-Kind Donations

The primary sources of in-kind support for the Organization are donated rent, event space, and supplies.

Rent – Donated rent is utilized as part of program services. Donated rent in excess of one year is included in restricted net assets. In valuing donated rent, the Organization estimates the fair value on the basis of the benefit to be received by the Organization over the term of the lease.

Event space – Donated event space is utilized as part of program services. There are no restrictions on donated event space. In valuing event space, the Organization estimates the fair value on the basis of estimates of contracting similar event spaces in the United States.

Supplies – Donated supplies are utilized as part of program services. The Organization’s policy is to expend supplies as soon as feasible. There are no restrictions on donated supplies. In valuing supplies, the Organization estimates the fair value on the basis of estimates of purchasing similar supplies in the United States.

Disaggregation – Revenue from in-kind support is as follows for the years ended December 31:

| | <u>2022</u> | <u>2021</u> |
|-------------|------------------|------------------|
| Event space | \$ 61,033 | \$ 40,135 |
| Rent | 13,491 | 25,491 |
| Supplies | 679 | 11,718 |
| | <u>\$ 75,203</u> | <u>\$ 77,344</u> |

Note 13 – Pension Plan

The Organization has a SIMPLE IRA plan, which is a defined contribution retirement plan. Under this plan, the Organization will match employee voluntary contributions up to 3% of gross wages of eligible employees. Employees are eligible to participate and receive employer match contributions upon completion of one year of service. Employer match contributions totaled \$21,802 and \$23,874 during the years ended December 31, 2022 and 2021, respectively.

Note 14 – Subsequent Events

In February 2023, the Organization purchased a building for a sale price of \$929,550. This purchase was financed with a loan from SaviBank for \$650,500, and a loan for \$279,000 from the seller of the building. The loan from SaviBank includes monthly payments of \$4,393 with an interest rate of 6.50%, and matures February 2033. The loan from the seller includes monthly payments of \$1,884 with an interest rate of 6.50%, and matures January 2025.