

# **Northwest Youth Services**

Financial Statements with  
Independent Auditor's Report

Year Ended December 31, 2019  
(with Summarized Comparative Totals  
for Year Ended December 31, 2018)

Larson Gross 

# Northwest Youth Services

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## Independent Auditor's Report

To the Board of Directors  
Northwest Youth Services  
Bellingham, WA

### Report on the Financial Statements

We have audited the accompanying financial statements of Northwest Youth Services, which comprise the statement of financial position as of December 31, 2019, the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Northwest Youth Services as of December 31, 2019, 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.

**Other Matter***Report on Summarized Comparative Information*

We have previously audited Northwest Youth Services' 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 25, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018, 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 December 4, 2020, 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 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 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  
December 4, 2020

Northwest Youth Services

**Statement of Financial Position**

December 31, 2019

(With Summarized Comparative Totals for December 31, 2018)

	<u>2019</u>	<u>2018</u>
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 869,796	\$ 687,004
Grants receivable	234,452	241,209
Pledges receivable, net	120,700	187,395
Rent receivable, net	29,589	-
Prepaid expenses	<u>49,281</u>	<u>33,474</u>
Total current assets	1,303,818	1,149,082
<b>Long-term pledges receivable, net</b>	-	115,000
<b>Long-term rent receivable, net</b>	239,181	-
<b>Property and equipment, net</b>	756,988	731,146
<b>Investment in assets held by Whatcom Community Foundation</b>	<u>15,817</u>	<u>13,594</u>
<b>Total assets</b>	<u>\$ 2,315,804</u>	<u>\$ 2,008,822</u>
<b>Liabilities and Net Assets</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 27,923	\$ 17,258
Accrued expenses	190,400	216,729
Deposits held as fiscal sponsor	101,421	-
Current portion of notes payable	<u>7,800</u>	<u>7,300</u>
Total current liabilities	327,544	241,287
<b>Notes payable, net of current portion</b>	<u>351,183</u>	<u>361,489</u>
Total liabilities	678,727	602,776
<b>Net assets</b>		
Without donor restrictions		
Undesignated	366,854	162,084
Board-designated	170,534	220,567
Net investment in property and equipment	<u>398,005</u>	<u>362,357</u>
Total without donor restrictions	935,393	745,008
With donor restrictions	<u>701,684</u>	<u>661,038</u>
Total net assets	<u>1,637,077</u>	<u>1,406,046</u>
<b>Total liabilities and net assets</b>	<u>\$ 2,315,804</u>	<u>\$ 2,008,822</u>

Northwest Youth Services

Statement of Activities

Year Ended December 31, 2019

(With Summarized Comparative Totals for Year Ended December 31, 2018)

	2019			2018
	Without Donor Restrictions	With Donor Restrictions	Total	Total
<b>Revenue and support</b>				
Grants and contributions – individuals, businesses, and organizations	\$ 1,057,260	\$ 54,336	\$ 1,111,596	\$ 1,003,918
Contributions – campaign	-	-	-	189,310
In-kind contributions	104,489	268,770	373,259	99,038
Government grants and contracts	2,202,452	-	2,202,452	2,173,546
Fundraising activities, net of direct expenses of \$29,686 and \$28,063 for 2019 and 2018, respectively	135,289	-	135,289	121,148
Other	11,528	2,223	13,751	(649)
Assets released from restrictions	284,683	(284,683)	-	-
Total revenue and support	3,795,701	40,646	3,836,347	3,586,311
<b>Functional expenses</b>				
Program services	2,632,290	-	2,632,290	2,266,913
Management and general	732,378	-	732,378	880,035
Fundraising	240,648	-	240,648	234,994
Total functional expenses	3,605,316	-	3,605,316	3,381,942
<b>Change in net assets</b>	190,385	40,646	231,031	204,369
Net assets – beginning of year	745,008	661,038	1,406,046	1,201,677
<b>Net assets – end of year</b>	<u>\$ 935,393</u>	<u>\$ 701,684</u>	<u>\$ 1,637,077</u>	<u>\$ 1,406,046</u>

Northwest Youth Services

**Statement of Functional Expenses**

Year Ended December 31, 2019

(With Summarized Comparative Totals for Year Ended December 31, 2018)

	2019			2018	
	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>	<u>Total</u>
Salaries and wages	\$ 1,509,079	\$ 341,695	\$ 170,678	\$ 2,021,452	\$ 1,963,092
Payroll taxes	150,566	40,426	16,426	207,418	189,122
Employee benefits	135,799	33,891	14,789	184,479	157,757
Total payroll related	1,795,444	416,012	201,893	2,413,349	2,309,971
Professional fees	149,796	169,514	-	319,310	154,976
Client lease	237,708	-	-	237,708	321,880
Occupancy	68,772	56,313	-	125,085	111,587
Client assistance – other	66,015	74	-	66,089	90,449
Supplies	49,353	9,914	2,393	61,660	24,503
Depreciation	47,605	11,901	-	59,506	56,908
In-kinds	67,301	8,959	22,229	98,489	99,038
Miscellaneous	14,579	11,946	12,643	39,168	35,322
Travel	24,463	4,417	881	29,761	21,178
Telephone	28,759	-	-	28,759	23,987
Insurance	16,550	11,329	-	27,879	19,468
Equipment and repairs	23,929	12,360	185	36,474	51,903
Stipends, summer youth	23,259	-	-	23,259	12,869
Conferences and training	18,757	2,866	424	22,047	30,578
Interest	-	16,773	-	16,773	17,325
	<u>\$ 2,632,290</u>	<u>\$ 732,378</u>	<u>\$ 240,648</u>	<u>\$ 3,605,316</u>	<u>\$ 3,381,942</u>

Northwest Youth Services

**Statement of Cash Flows**

Year Ended December 31, 2019

(With Summarized Comparative Totals for Year Ended December 31, 2018)

	<u>2019</u>	<u>2018</u>
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 231,031	\$ 204,369
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities:		
Net depreciation (appreciation) in investment in assets held by Whatcom Community Foundation	(2,223)	1,507
Contribution of right to use noncash assets, net of discount	(268,770)	-
Depreciation	59,506	56,908
(Increase) decrease in assets		
Grants receivable	6,757	(15,957)
Pledges receivable	181,695	(175,645)
Prepaid expenses and other assets	(15,807)	(20,371)
Increase (decrease) in liabilities		
Accounts payable	10,665	10,757
Accrued expenses	(26,329)	122,261
Deposits held as fiscal sponsor	101,421	-
	<u>277,946</u>	<u>183,829</u>
<b>Net cash provided by operating activities</b>	<b>277,946</b>	<b>183,829</b>
<b>Cash flows from investing activities</b>		
Purchase of property and equipment	<u>(85,348)</u>	<u>(5,454)</u>
Net cash used in investing activities	(85,348)	(5,454)
<b>Cash flows from financing activities</b>		
Repayment of notes payable	<u>(9,806)</u>	<u>(9,289)</u>
<b>Net cash used by financing activities</b>	<u>(9,806)</u>	<u>(9,289)</u>
Net increase in cash and cash equivalents	182,792	169,086
Cash and cash equivalents – beginning of year	<u>687,004</u>	<u>517,918</u>
<b>Cash and cash equivalents – end of year</b>	<u>\$ 869,796</u>	<u>\$ 687,004</u>
<b>Supplemental Disclosure of Cash Flow Information</b>		
Cash paid during the year for interest	<u>\$ 16,773</u>	<u>\$ 17,325</u>

**Notes to Financial Statements**

December 31, 2019 and 2018

**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 unspecified 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, 2019 and 2018, 83% and 63% were due from five and two government agencies, respectively.

**Notes to Financial Statements**

December 31, 2019 and 2018

**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, 2019, as all pledges are expected to be fully collectible.

Of the Organization's total pledges receivable at December 31, 2019 and 2018, 83% 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 permanently 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. The balance of the fund held by WCF totaled \$15,817 and \$13,594 as of December 31, 2019 and 2018, respectively.

**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.

The Organization received 27% and 30% of its individual, business, and organization contributions from two and one donors during the years ended December 31, 2019 and 2018, respectively. The Organization began a campaign during 2016 (see Note 3) and received 66% of its campaign contributions from four donors during the year ended December 31, 2018. There were no campaign contributions recognized during the year ended December 31, 2019.

**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 under Accounting Standard Codification (ASC) 958-605-25-16, *Not-for-Profit Entities – Recognition of Contributed Services*.

**Notes to Financial Statements**

December 31, 2019 and 2018

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

**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.

**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.

**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.

**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, 2018, from which the summarized information was derived.

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

**Subsequent events** – In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through December 4, 2020, the date the financial statements were available to be issued.

Northwest Youth Services

Notes to Financial Statements

December 31, 2019 and 2018

**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>2019</u>	<u>2018</u>
Financial assets at year end		
Cash and cash equivalents	\$ 869,796	\$ 687,004
Grants receivable	234,452	241,209
Pledges receivable	<u>120,700</u>	<u>302,395</u>
Total financial assets	1,224,948	1,230,608
Less amounts not available for general expenditure within one year		
Non current portion of pledges receivable	-	(115,000)
Donor-restricted for specific purpose	(317,097)	(423,944)
Donor-restricted to be held in perpetuity	<u>(15,817)</u>	<u>(13,594)</u>
	<u>(332,914)</u>	<u>(552,538)</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 892,034</u>	<u>\$ 678,070</u>

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.

Northwest Youth Services

Notes to Financial Statements

December 31, 2019 and 2018

**Note 3 – Pledges Receivable – (Continued)**

Pledges receivable consist of the following at December 31:

	<u>2019</u>	<u>2018</u>
Campaign pledges receivable outstanding	\$ 15,375	\$ 16,375
Other pledges receivable outstanding	<u>105,325</u>	<u>286,020</u>
Total pledges receivable, net	120,700	302,395
Less: Current portion of pledges receivable	<u>(120,700)</u>	<u>(187,395)</u>
Noncurrent portion of pledges receivable	<u>\$ -</u>	<u>\$ 115,000</u>

**Note 4 – Rent Receivable**

The Organization entered into a 10 year lease with a church in Bellingham, Washington in January 2019 for property to house the Organization’s new 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 non-cash 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. The rent receivable related to this lease is expected to be collected through use of the property as follows:

	<u>2019</u>	<u>2018</u>
Within one year	\$ 43,080	\$ -
In one to five years	172,320	-
Thereafter	<u>175,910</u>	<u>-</u>
Total rent receivable	391,310	-
Less: Unamortized discount to fair value (at 8%)	<u>(122,540)</u>	<u>-</u>
Total rent receivable, net	268,770	-
Less: Current portion of rent receivable	<u>(29,589)</u>	<u>-</u>
Noncurrent portion of rent receivable	<u>\$ 239,181</u>	<u>\$ -</u>

**Notes to Financial Statements**

December 31, 2019 and 2018

**Note 5 – Property and Equipment**

Property and equipment consists of the following at December 31:

	<u>2019</u>	<u>2018</u>
Building and leasehold improvements	\$ 662,654	\$ 644,127
Buildings	468,000	468,000
Land	109,440	109,440
Construction in progress – main office renovation	57,971	-
Equipment	40,372	37,522
Vehicles	31,663	25,663
Computer software	19,994	19,994
	<u>1,390,094</u>	<u>1,304,746</u>
Less accumulated depreciation	<u>(633,106)</u>	<u>(573,600)</u>
	<u>\$ 756,988</u>	<u>\$ 731,146</u>

Depreciation expense totaled \$59,506 and \$56,908 for the years ended December 31, 2019 and 2018, respectively.

**Note 6 – Line-of-Credit**

The Organization has a line-of-credit with a bank for up to \$100,000. The line-of-credit is secured by assets of the Organization, and interest is payable monthly at the bank's prime rate plus 4% (resulting in a rate of 8.75% at December 31, 2019). There were no amounts outstanding at December 31, 2019 and 2018.

**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, 2019 and 2018. 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.

Northwest Youth Services

**Notes to Financial Statements**

December 31, 2019 and 2018

**Note 7 – Long-Term Debt** – (Continued)

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

	<u>2019</u>	<u>2018</u>
Note payable to Peoples Bank, payable \$2,215 per month, including interest at 5.39% through November 2027, the date of maturity, secured by a deed of trust on property	\$ 305,851	\$ 315,657
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>
	358,983	368,789
Amount due within one year	<u>(7,800)</u>	<u>(7,300)</u>
	<u>\$ 351,183</u>	<u>\$ 361,489</u>

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

2020	\$ 7,800
2021	8,300
2022	8,900
2023	9,400
2024	10,000
Thereafter	<u>314,583</u>
	<u>\$ 358,983</u>

**Note 8 – Board-Designated Net Assets**

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

	<u>2019</u>	<u>2018</u>
Main Office Repair/IT Infrastructure capital expenses	<u>\$ 170,534</u>	<u>\$ 220,567</u>

Northwest Youth Services

**Notes to Financial Statements**

December 31, 2019 and 2018

**Note 9 – Net Assets with Donor Restrictions**

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

	<u>2019</u>	<u>2018</u>
Campaign – 22 North Project	\$ 249,233	\$ 249,233
Time restricted – rent receivable	268,770	-
Time restricted – other	100,000	200,000
Ground Floor Program	43,103	-
Held in perpetuity with Whatcom County Foundation	15,817	13,594
Executive Director position	13,528	48,438
Queer Youth Program	9,591	25,352
Other	1,642	-
Development Director position	-	67,702
Positive Adolescent Development Program	-	30,000
Street Outreach Program	-	10,000
Transitional Living Program	-	10,000
Whatcom Vocational Program	-	6,719
	<u>\$ 701,684</u>	<u>\$ 661,038</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>2019</u>	<u>2018</u>
Washington State Department of Commerce	\$ 550,355	\$ 506,490
Whatcom County	449,469	404,126
Substance Abuse and Mental Health Services Administration	403,258	271,062
City of Bellingham	259,892	136,371
U.S. Department of Housing and Urban Development	251,673	284,025
U.S. Department of Health and Human Services	189,027	463,496
Skagit County	55,301	46,578
Bellingham School District	43,477	61,398
	<u>\$ 2,202,452</u>	<u>\$ 2,173,546</u>

**Note 11 – Operating Leases**

The Organization entered into an operating lease for additional office space commencing March 2016. The term of the lease ran through October 2019. Monthly payments totaled \$4,000 over the term of the lease. Subsequent to year-end, the Organization entered into two additional leases for office space commencing April 2020. The terms of the leases run through March 2025. Monthly rent payment range from free to \$6,296 over the terms of the leases. These leases have been included in the following table of future minimum annual lease payments.

Northwest Youth Services

**Notes to Financial Statements**

December 31, 2019 and 2018

**Note 11 – Operating Leases** – (Continued)

In November 2018, the Organization entered into a sublease agreement for office space as described in Note 3. Monthly payments total \$1,200 over the term of the lease. The expiration date is set for October 2020.

The Organization leases additional properties, on behalf of the youth it serves, in Whatcom and Skagit Counties under operating lease agreements, including some that are on a month-to-month basis. Monthly payments range from \$750 to \$1,995 with the leases expiring between 2019 and 2020.

Rent expense under these leases totaled \$307,943 and \$390,441 for the years ended December 31, 2019 and 2018, respectively.

Future minimum annual lease payments for the years ending December 31 are as follows:

2020	\$	177,611
2021		87,137
2022		85,262
2023		83,758
2024		85,359
Thereafter		21,441
	\$	<u>540,568</u>

**Note 12 – 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 \$13,914 and \$17,536 during the years ended December 31, 2019 and 2018, respectively.

**Note 13 – Risks and Uncertainties**

In the normal course of business, various legal actions and claims are pending or may be instituted or asserted in the future against the Organization. Management believes the Organization does not have any significant claims or other litigation where the ultimate resolution would have a material financial impact.

**Notes to Financial Statements**

December 31, 2019 and 2018

**Note 14 – Impact of Accounting Method Change**

The Financial Accounting Standards Board (FASB) issued new guidance that created Topic 606, *Revenue from Contracts with Customers*, in the ASC. Topic 606 supersedes the revenue recognition requirements in FASB ASC 605, *Revenue Recognition*, and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The Organization adopted the requirements of the new guidance as of January 1, 2019, utilizing the modified retrospective method of transition. The Organization did not recognize any adjustments in changes in net assets, net assets, or any other financial statement line item as a result of adopting ASC 606.

**Note 15 – Subsequent Events**

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, and quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which the Organization operates. While it is unknown how long these conditions will last and what the complete financial effect will be to the Organization, it is reasonably possible that the Organization is vulnerable to the risk of a near-term severe impact.

In April 2020, the Organization received a \$461,000 loan from the Federal Paycheck Protection Program. This loan accrues interest at 1%, is guaranteed by the Small Business Administration, and may be forgivable if the Organization's use of funds meets the criteria for such forgiveness. Monthly accrued interest payments begin November 2020. The portion of the loan that is not forgiven, if any, is due in one principal payment in April 2022.

**Note 16 – Recent Accounting Pronouncement**

In February 2016, the FASB issued ASU 2016-02, *Leases*, which requires lessees to record most leases with terms greater than 12 months on their balance sheet by recognizing a liability to make lease payments and an asset representing their right to use the asset during the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election, by class of underlying asset, not to recognize the corresponding assets and lease liabilities. Lessee recognition, measurement, and presentation of expenses and cash flows will not change significantly from existing guidance and lessor accounting is largely unchanged. ASU 2016-02 also changes the definition of a lease and requires qualitative and quantitative disclosures that provide information about the amount, timing, and uncertainty of cash flows arising from leases. Application is currently required for annual periods beginning after December 15, 2021. The Organization continues to evaluate the impact of the new accounting guidance on its financial statements.