

NORTHWEST HARVEST
FINANCIAL STATEMENTS
With Independent Auditor's Report
YEAR ENDED JUNE 30, 2021



NORTHWEST HARVEST
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT	2 - 3
STATEMENT OF FINANCIAL POSITION June 30, 2021	4
STATEMENT OF ACTIVITIES Year Ended June 30, 2021	5
STATEMENT OF FUNCTIONAL EXPENSES Year Ended June 30, 2021	6
STATEMENT OF CASH FLOWS Year Ended June 30, 2021	7
NOTES TO FINANCIAL STATEMENTS	8 - 20

INDEPENDENT AUDITOR'S REPORT

July 21, 2022

Board of Directors
Northwest Harvest
Seattle, Washington

We have audited the accompanying financial statements of Northwest Harvest (a nonprofit corporation), which comprise the statement of financial position as of June 30, 2021, and the related statement 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.

Auditors' 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. 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 in the first paragraph of this letter present fairly, in all material respects, the financial position of Northwest Harvest as of June 30, 2021, 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.

Jacobson Jarvis & Co, PLLC

Jacobson Jarvis & Co, PLLC

NORTHWEST HARVEST
STATEMENT OF FINANCIAL POSITION

JUNE 30, 2021

ASSETS

Current Assets	
Cash and cash equivalents	\$ 19,321,332
Investments	42,296,300
Contributions and other receivables	1,439,820
Inventory - food held for distribution	10,749,587
Prepays and deposits	<u>402,556</u>
	Total Current Assets 74,209,595
Security Deposit	163,465
Beneficial Interests in Funds Held by Others	9,317,271
Property and Equipment, net	<u>6,346,187</u>
	<u>\$ 90,036,518</u>

LIABILITIES AND NET ASSETS

Current Liabilities	
Accounts payable	\$ 907,746
Accrued liabilities	<u>899,307</u>
	Total Current Liabilities 1,807,053
Refundable Advances	918,441
Deferred Rent Liability	163,707
Deferred Gain on Sale of Property	<u>1,248,406</u>
	Total Liabilities <u>4,137,607</u>
Net Assets	
Without donor restriction	62,523,376
With donor restriction	<u>23,375,535</u>
	Total Net Assets <u>85,898,911</u>
	<u>\$ 90,036,518</u>

NORTHWEST HARVEST
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2021

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>Total</u>
Support and Revenue			
Cash contributions and pledges	\$34,568,897	\$ 7,659,753	42,228,650
Contributions of goods and services	34,451,055	-	34,451,055
Grants from government agencies	18,980,146	-	18,980,146
Investment return, net	116,107	(26,887)	89,220
Other revenue	266,034		266,034
Gain on sale of property	832,770		832,770
Net assets released from restrictions	<u>871,788</u>	<u>(871,788)</u>	<u>-</u>
Total Support and Revenue	<u>90,086,797</u>	<u>6,761,078</u>	<u>96,847,875</u>
Expenses			
Program services	58,186,428		58,186,428
Management and general	2,621,311		2,621,311
Fundraising	<u>3,232,197</u>		<u>3,232,197</u>
Total Expenses	<u>64,039,936</u>		<u>64,039,936</u>
Change in Net Assets	26,046,861	6,761,078	32,807,939
Net Assets - Beginning of Year	<u>36,476,515</u>	<u>16,614,457</u>	<u>53,090,972</u>
Net Asset - End of Year	<u>\$ 62,523,376</u>	<u>\$ 23,375,535</u>	<u>85,898,911</u>

NORTHWEST HARVEST

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2021

	Program Services	Management and General	Fundraising	Total
Food and non-food distribution	\$ 39,340,495	\$ -	\$ -	\$ 39,340,495
Labor, taxes and benefits	6,126,033	1,953,275	1,580,874	9,660,182
Partner capacity grants	3,921,206	-	-	3,921,206
Other in-kind goods and services	3,830,363	-	-	3,830,363
Facilities and equipment	2,382,414	54,017	37,957	2,474,388
Professional services	618,393	193,156	203,257	1,014,806
Other operating	483,296	239,377	190,789	913,462
Food and non-food transportation	708,860	100	27	708,987
In-kind media services	-	-	659,830	659,830
Depreciation and amortization	426,260	39,814	61,781	527,855
Technology and telecommunications	244,230	78,541	69,711	392,482
Branding, marketing and solicitations	5,653	16,304	364,828	386,785
Travel, learning and outreach	99,225	46,727	63,143	209,095
Total Expenses	<u>\$ 58,186,428</u>	<u>\$ 2,621,311</u>	<u>\$ 3,232,197</u>	<u>\$ 64,039,936</u>

NORTHWEST HARVEST
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2021

Cash Flows from Operating Activities

Cash received from:

Donors	\$ 40,388,145
Government agencies	19,886,663
Investment	209,630
Other revenue	266,534

Cash paid for:

Personnel	(9,504,026)
Food and non-food items for distribution	(5,816,050)
Grantees	(3,921,206)
Services and supplies	<u>(14,400,790)</u>

Net Cash Provided by Operating Activities 27,108,900

Cash Flows from Investing Activities

Purchases of investments	(41,142,564)
Purchases of property and equipment	<u>(4,019,977)</u>

Net Cash Used by Investing Activities (45,162,541)

Changes in Cash and Cash Equivalents (18,053,641)

Cash and Cash Equivalents - beginning of year 37,374,973

Cash and Cash Equivalents - end of year \$ 19,321,332

NORTHWEST HARVEST

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2021

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Northwest Harvest (the Organization) is a Washington nonprofit corporation. The Organization's mission is to lead the fight for hungry people statewide to have access to nutritious food – while respecting their dignity and promoting good health. Food from the Organization is always free to anyone in need. The Organization's vision is to end hunger in Washington State.

The Organization carries out its mission by collecting and distributing food, operating a food bank in Seattle, and advocating for public policies that reduce food insecurity. The Organization is the only nonprofit food bank distributor operating statewide in Washington with a network of 375 food banks, meal programs, and high-need schools. With distribution centers in Kent, Yakima, and Spokane, the Organization reaches across the state, particularly in rural communities where people in need would otherwise go hungry. In addition, the Organization provides technical assistance and support to its partners in the emergency food network.

The Organization has a memorandum of understanding with the Anti-Hunger Nutrition Coalition (AHNC) and Soul of Seattle (SOS). Under this agreement, the Organization will serve as a fiscal sponsor until AHNC and SOS incorporate and obtain tax exempt status. All donations received by the Organization on behalf of AHNC and SOS will be treated as donor-restricted donations and will be released when spent on the AHNC and SOS program. During the year ended June 30, 2021, amounts received and paid on behalf of AHNC and SOS were not significant to the financial statements.

Basis of presentation

The Organization presents its financial statements on an accrual basis of accounting in accordance with FASB Accounting Standards Codification (ASC) 958, Not-for-Profit Entities. Under FASB ASC 958, the Organization is required to report information regarding its financial position and activities based on the existence or absence of donor- or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net Assets With Donor Restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

NORTHWEST HARVEST

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2021

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions restricted by donors are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are released from restriction when the assets are placed in service.

Income taxes

The Internal Revenue Service has recognized the Organization as exempt from federal income taxes under provision of Section 501(a) of the Internal Revenue Code as an entity described in Section 501(c)(3) and not as a private foundation.

The Organization evaluates its uncertain tax positions and a loss contingency is recognized when it is more likely than not that a liability has been incurred and the amount can be reasonably estimated.

Use of estimates

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

Cash and cash equivalents

The Organization considers all cash and other highly liquid investments with initial maturities of three months or less, other than those included within the investment portfolio, to be cash equivalents.

Fair value measurements

In accordance with financial accounting standards, a three-tiered hierarchy of input levels is used for measuring fair value. Financial accounting standards defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Valuation techniques utilized to determine fair value are consistently applied. Transfers between levels in the fair value hierarchy are recognized at the end of the reporting period.

NORTHWEST HARVEST

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2021

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

The three tiers of inputs used for fair value measurements are as follows:

Level 1: Fair values are based on quoted prices in active markets for identical assets and liabilities.

Level 2: Fair values are based on observable inputs that include: quoted market prices for similar assets or liabilities; quoted market prices that are not in an active market; or other inputs that are observable in the market and can be corroborated by observable market data for substantially the full term of the assets.

Level 3: Fair values are calculated by the use of pricing models and/or discounted cash flow methodologies, and may require significant management judgment or estimation. These methodologies may result in a significant portion of the fair value being derived from unobservable data.

Investments

Investments in securities are carried at fair value. Securities donated to the Organization are recorded at fair value at date of gift. It is the Organization's policy that such gifts are immediately sold. Investment return is reported on the statement of activities and consist of interest, dividends, and realized and unrealized gains or losses on investments, net of investment management costs.

Receivables

Contributions and other receivables are stated at amounts the Organization expects to collect from outstanding balances. The allowance for doubtful accounts is maintained at a level considered adequate to provide for potential uncollectible contributions and past due receivables. The adequacy of the allowance is based upon the Organization's evaluation of the quality, character, and inherent risks in the various receivable categories. Uncollectible amounts are written off against the allowance when the Organization has exhausted all collection efforts. The allowance for doubtful accounts totaled \$20,643 as of June 30, 2021.

Inventory

Inventory consists of food held for distribution and is valued at cost if purchased and at an annual rate published by the United States Department of Agriculture if donated.

Beneficial interest in funds held by others

Amounts represent trusts and funds held and managed by others. The Organization initially records such amounts at their net present value when notified by the donor or donor representative. Thereafter, the interests are adjusted annually to fair value.

NORTHWEST HARVEST

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2021

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and equipment

Property and equipment are stated at cost or, if donated, at fair value at date of donation. Property and equipment with an original cost of \$5,000 or greater are capitalized. Depreciation is computed using the straight-line method, half-year convention, over the estimated useful lives of the assets.

Property and equipment consisted of the following as of June 30, 2021:

	<u>Estimated Useful Lives</u>	
Land		\$ 2,534,378
Building and improvements	5 - 10 years	348,436
Leasehold improvements		2,342,190
Office furniture and equipment	5 - 10 years	752,289
Food storage equipment	5 - 7 years	1,576,320
Automotive equipment	5 years	1,735,452
Computers and software	3 - 5 years	1,058,354
Construction in progress		<u>1,129,244</u>
		11,476,663
Less accumulated depreciation		<u>(5,130,476)</u>
		<u>\$ 6,346,187</u>

Refundable advances

In 2007, King County granted the Organization \$350,000 conditioned upon the operation of the Kent warehouse facility for a period of 15 years expiring December 2022. The conditional grant requires the Organization to repay the original \$350,000 and 4.33% of the net appreciated value of the property should the facility not be used as a food distribution and storage warehouse. Upon sale of the Kent Warehouse in December 2019 (See Note I), King County required the Organization to establish a reserve to be held as collateral in the amount of \$740,483. This is the amount that would be required to be repaid to King County should the Organization cease using the property prior to the end of the leaseback term of December 2022. The amount is included in refundable advances.

In May 2020, the Organization received a loan of \$1,325,000 through the U.S. Small Business Administration Paycheck Protection Program. During the year ended June 30, 2021, \$1,147,042 of the loan was forgiven. The remaining amount of \$177,953 was repaid in July 2021.

NORTHWEST HARVEST

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2021

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred rent

Non-cancelable operating lease expenses are recognized using the straight-line method over the related lease term. The current and cumulative differences between the amount of rent expense recorded using the straight-line method and rent due according to the provisions of the lease are deferred in the accompanying statements of financial position.

Support recognition

The Organization recognizes contributions when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return or release, are not recognized until the conditions on which they depend have been met. Certain of the Organization's contracts and grants are conditioned upon certain performance requirements and the incurrence of allowable qualifying expenses. Consequently, as of June 30, 2021, conditional grants and fee-for-service government contracts for which no amounts had been received in advance, totaling \$1,306,903 have not been recognized in the accompanying financial statements.

Donated goods and services

The Organization has included the fair value of donated goods and qualifying services as a part of its total support. Food and non-food products are recorded using average fair value per pound. Facility rental, equipment, software, media advertising and other goods are valued at comparable costs quoted to the general public. Donated services are recognized if they (a) create or enhance non-financial assets, or (b) require specialized skills and would need to be purchased if not provided by donation. Corresponding expenses are recognized as the assets and services are utilized.

The following summary of donated goods and services revenue is reflected in the accompanying financial statements for the years ended June 30, 2021:

Food and non-food goods received	\$ 29,880,418
Donated media	659,830
Other donated goods and services	<u>3,910,807</u>
Total contributed goods and services	<u>\$ 34,451,055</u>

Volunteer services that do not require specialized skills are not reflected in the accompanying financial statements. Management estimates the dollar value of volunteer time according to the Bureau of Labor Statistics value of average hourly earnings of all production and nonsupervisory workers on private non-farm payrolls.

NORTHWEST HARVEST

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2021

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

The hourly wage was \$25.81 for the year ended June 30, 2021. The fair value of 62,371 volunteer hours is estimated by management to be worth approximately \$1,609,796 (unaudited) for the year ended June 30, 2021.

Functional allocation of expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities and of functional expenses. Where possible, specific expenses have been charged directly to the appropriate category. When functions are shared or costs are intermingled, expenses are allocated based on employee compensation among departments.

Advertising

The Organization uses advertising to promote its programs among the community it serves. The cost of advertising is expensed as incurred. For the year ended June 30, 2021, advertising costs totaled \$34,784.

Concentration

The Organization maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits.

As of June 30, 2021, 36% of contributions and other receivables was due from the Washington State Department of Agriculture.

Unemployment self-insurance

The Organization is a member of the 501(c) Agencies Trust (the Trust). The Trust facilitates the utilization by member agencies of the reimbursement financing method of meeting obligations under state unemployment insurance statutes. The reserve balance totaled \$107,216 at June 30, 2021 and is included in prepaid expenses on the statement of financial position. On a quarterly basis, the Organization reviews the activity in its Trust account and reduces the reserve balance by any claims disbursed from its account. As of June 30, 2021, an accrual of \$10,000 has been made for any potentially incurred but not reported unemployment claims that may exist and is included in accrued liabilities on the statement of financial position.

Contingencies

The Organization is involved, from time to time, in various claims and other legal issues arising in the normal course of business. Management believes that any uninsured costs that may be incurred in the resolution of such claims would not be material to the Organization's financial position.

NORTHWEST HARVEST

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2021

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Risks and uncertainties

The Organization invests in various investment securities. 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 the amounts reported in the statement of financial position.

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic, which continues to spread throughout the United States (US). The immediate impact on the US and international economies has been significant. There is significant uncertainty regarding the breadth and duration of the business disruptions related to COVID-19, as well as the impact on the US and global economies. Management is continually evaluating the ongoing impacts of the COVID-19 pandemic and has concluded that while it is reasonably possible that the virus could have a negative effect on the Organization's financial position, change in net asset and cash flows, the specific impact is not readily determinable as of the date of these financial statements.

NOTE B - LIQUIDITY

The Organization strives to maintain liquid financial assets sufficient to cover 60 days of fixed operating expenditures. Such expenditures average approximately \$2,700,000 per month. Financial assets in excess of the minimum cash requirement are invested in certificates of deposit, money market funds and other short-term investments.

The following table reflects the Organization's financial assets as of June 30, 2021 reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date because of donor restrictions or designations by the board of directors.

Total financial assets	\$ 72,374,723
Less: Board designated Funds	(17,905,540)
Less: Donor-imposed restrictions	
Specific time or purpose restrictions	(15,963,804)
Endowments	<u>(7,411,731)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 31,093,648</u>

NORTHWEST HARVEST

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2021

NOTE C - FAIR VALUE MEASUREMENTS

Fair value of assets measured on a recurring basis (at least annually) is as follows at June 30, 2021:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents held for investment	\$ 1,540,380	\$ -	\$ -	\$ 1,540,380
Corporate and municipal bonds	40,755,920	-	-	40,755,920
Beneficial interests in funds held by others	<u>-</u>	<u>-</u>	<u>9,317,271</u>	<u>9,317,271</u>
	<u>\$42,296,300</u>	<u>\$ -</u>	<u>\$ 9,317,271</u>	<u>\$ 51,613,571</u>

A reconciliation of the beginning and ending balances for fair value measurements of the beneficial interests in funds held by others, made using significant unobservable inputs (Level 3) is as follows for the year ended June 30, 2021:

Level 3 Valuations, Beginning of year	\$ 7,799,884
Additions	2,033,693
Distributions	(451,035)
Investment returns, net	<u>(65,271)</u>
Level 3 Valuations, End of year	<u>\$ 9,317,271</u>

Assets and liabilities carried at fair value on a nonrecurring basis using level 2 inputs generally include donated goods, facilities and services. Long-term promises to give are valued on a nonrecurring basis using the net present value of future cash flows discounted at a risk-free rate of return which is a level 3 input. The Organization also uses fair value concepts to test various long-lived assets for impairment.

Perpetual trust

The Organization was named as a beneficiary of a perpetual trust. Under the terms of the trust, an independent trustee will make semi-annual distributions, in perpetuity, to the Organization based upon 2.5% of the trust's net assets. The distributions are available for the general operations. Accordingly, contribution revenue and the related asset were recognized at fair value in the period in which the Organization received notice that the trust agreement conveyed an unconditional, irrevocable right to receive benefits. Subsequent changes in the value of the underlying assets have been recorded in the accompanying statement of activities as a component of investment return, net with donor restrictions.

NORTHWEST HARVEST

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2021

NOTE D - BENEFICIAL INTEREST IN FUNDS HELD BY OTHERS

Seattle Foundation and Floyd Jones Endowment

In November 2007, the Organization established designated endowment funds (the Funds) at the Seattle Foundation (the Foundation). The assets of the Funds are held and owned by the Foundation in its corporate capacity and are not deemed held by the Foundation as trustee of a separate trust for the Organization. Donors granted no variance power to the Foundation. The Foundation shall distribute not less often than annually, unless otherwise requested by the Organization, 4% to 5% of the market, which shall be the three-year trailing average for the Funds, with the excess earnings, if any, being added to principal. The principal of the endowment must be retained, administered, and managed by the Foundation for the benefit of the Organization.

Beneficial interests in funds held by others are summarized as follows for the year ended June 30, 2021:

Floyd Jones Endowment	\$ 7,905,540
Perpetual Trust	1,233,815
Seattle Foundation Endowment	<u>177,916</u>
Total beneficial interest in funds held by others	<u>\$ 9,317,271</u>

NOTE E - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are as follows as of June 30, 2021:

Subject to expenditure for specific purpose:

Food and Other Program Services	\$ 15,558,829
Anti-Hunger Nutrition Coalition	17,048
Soul of Seattle	199,228
Restricted Other (Advocacy)	176,612
Health Community Advisory Network	<u>12,087</u>
	<u>15,963,804</u>

Subject to distribution in accordance with trust agreements:

Floyd Jones Endowment	\$ 6,000,000
Perpetual Trust	1,233,816
Seattle Foundation Endowment	<u>177,915</u>
	<u>7,411,731</u>

Total net assets with donor restrictions \$23,375,535

NORTHWEST HARVEST

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2021

NOTE E - NET ASSETS WITH DONOR RESTRICTIONS (Continued)

Net assets released from donor restrictions are as follows for the years ended June 30, 2021:

Food and other program services	\$ 870,447
Other purpose-related expenditures	<u>1,341</u>
	<u>\$ 871,788</u>

Board-designated net assets (without donor restrictions) are \$17,905,540 as of June 30, 2021 consisting of \$16,000,000 in proceeds from the sale of the Kent warehouse and \$1,905,540 from the Floyd Jones Endowment earnings for the year ended June 30, 2021.

NOTE F - ENDOWMENT

The Organization's endowments consist of two funds held at the Seattle Foundation. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board has reviewed the Washington State Uniform Prudent Management of Institutional Funds Act (UPMIFA), and, having considered its rights and obligations thereunder, has determined that it is desirable to preserve, on a long-term basis, the fair value of the original gifts as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

As a result of this determination, the Organization classifies as endowment assets (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

All investment earnings and appreciation not required to be retained in endowment net assets, as described above, will be classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund;
- (2) The purposes of the organization and the donor-restricted endowment fund;
- (3) General economic conditions;
- (4) The possible effect of inflation and deflation;
- (5) The expected total return from income and the appreciation of investment;
- (6) Other resources of the organization; and
- (7) The investment policies of the organization.

NORTHWEST HARVEST

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2021

NOTE F - ENDOWMENT (Continued)

Return Objectives and Risk Parameters

The Organization has adopted investment policies for endowment assets that focus on long-term results. At a minimum, these policies attempt to provide a predictable stream of funding to programs supported by The Organization while seeking to maintain the purchasing power of the endowment assets. Under the policy, the endowment assets are invested in a manner that is intended to produce maximum long-term total returns consistent with reasonable risk to principal for their asset category.

Strategies for Achieving Objectives

The Organization's endowment is invested at the Seattle Foundation and is subject to its investment policies. As previously discussed, the Foundation must distribute not less often than annually, unless otherwise requested by the Organization, approximately 5% (determined by the Board of Trustees of the Foundation) of the fair market value of the Funds, with the excess earnings, if any, being added to principal. The principal of the endowment must be retained, administered, and managed by the Foundation for the benefit of the Organization.

Change in Endowment Net Assets for the Years Ended June 30, 2021:

Endowment Net Assets, beginning of year	\$ 140,808
Contributions	45,601
Distributions	-
Investment returns	<u>(8,493)</u>
Endowment net assets, end of year	<u>\$ 177,916</u>

NOTE G - LINE OF CREDIT

The Organization has an operating line of credit with a maximum limit of \$500,000. Interest on the borrowings is calculated at fixed rate of 4.75% with a maturity date of February 28, 2024. There was no outstanding balance as of June 30, 2021.

NOTE H - RETIREMENT PLAN 401k

The Organization offers a retirement savings plan (the plan) under section 401(k) of the Internal Revenue Code. At the discretion of the Board of Directors, the Organization has chosen to contribute to each employee eligible to participate in the plan. Employer contributions for the year ended June 30, 2021 totaled \$286,035.

NOTE I - COMMITMENTS

Headquarters lease

In January 2017, the Organization entered into a lease agreement for its Seattle administrative office. The term of the lease is 120 months, expiring December 2026. The lease has monthly rental payments escalating from approximately \$5,600 to \$7,900 over the term of the lease.

NORTHWEST HARVEST

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2021

NOTE I - COMMITMENTS (Continued)

Community Market lease

In September 2018, the Organization signed a lease agreement for the community market location in Seattle commencing in October 2018, with base rent payments escalating from approximately \$10,700 to \$13,900 to be paid through March 2029.

Kent warehouse sale leaseback

In December 2019, the Kent warehouse was sold for \$17,850,000, at which time the Organization entered into a leaseback of the facility through December 2022, with an option to renew for an additional five years. The Organization does not intend to exercise the option to renew, and thus has chosen only to disclose future minimum payments through December 2022. The lease has monthly rental payments escalating from approximately \$69,500 to \$73,700 over the term of the lease.

In accordance with financial accounting standards, the Organization has accounted for the gain on the sale of the Kent Warehouse under sale-leaseback accounting, which requires the deferral of a portion of the gain on the sale of the property, recognition of which will occur over the term of the lease in proportion to the lease payments. Gain on sale of the property totaled \$7,821,713. Of the total gain, \$2,496,811 was initially deferred. Of this amount, \$416,135 and \$832,270 were amortized during the years ended June 30, 2020 and 2021, respectively. The remaining deferred gain totaled \$1,248,406 as of June 30, 2021.

Other warehouse leases

The Organization has leases for warehouse space in Spokane and Yakima. The Spokane lease term runs October 2018 through October 2023 with base monthly rent payments escalating from approximately \$6,300 to \$7,000. The Yakima lease term runs January 2019 through December 2021 with base monthly rent payments escalating from approximately \$9,500 to \$9,900.

In accordance with financial accounting standards, rent expense is recognized on a straight-line basis and a related deferred rent liability was recorded. Future minimum lease payments, change in deferred rent, and rent expense under non-cancelable operating leases for future years ending June 30 are as follows:

	Minimum Lease Payment	Deferred Rent Liability	Rent Expense
2022	1,229,421	(11,710)	\$ 1,217,711
2023	749,819	(20,392)	729,427
2024	259,328	(12,986)	246,342
2025	238,968	(19,199)	219,769
2026	247,032	(27,263)	219,769
Thereafter	494,115	(72,157)	421,958
	<u>\$ 3,218,683</u>	<u>\$ (163,707)</u>	<u>\$ 3,054,976</u>

NORTHWEST HARVEST

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2021

NOTE I - COMMITMENTS (Continued)

Rent expense under these leases totaled \$1,505,480 for the year ended June 30, 2021.

Auburn warehouse lease

In January 2022, the Organization entered into a lease for warehouse space in Auburn, Washington. The Auburn lease term runs February 2022 through April 2027 with base monthly rent payments escalating from approximately \$45,900 to \$54,500.

Yakima warehouse construction

In September 2020, the Organization entered into a purchase and sale agreement to purchase land in Yakima, Washington as part of its long-term strategy to develop a new distribution facility and expand the community market footprint in Eastern Washington by the end of 2022. On March 3, 2021, the purchase of land was completed at a cost of \$2,410,000. During the year ended June 30, 2021, the Organization entered into a contract to build a 189,686 square-foot pre-engineered steel building at a total cost of \$30 million to be used as the new Yakima distribution center with chilled and freezer space and a community market.

NOTE J - SUBSEQUENT EVENTS

Management has evaluated events occurring subsequent to June 30, 2021 through July 21, 2022, which is the date the financial statements were available to be issued and has recognized in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at June 30, 2021, including the estimates inherent in the processing of financial statements.