

AUDIT COMMUNICATION LETTER

May 15, 2023

To the Board of Directors
Sustainable Northwest

We have audited the financial statements of Sustainable Northwest (the Organization) as of and for the year ended December 31, 2022, and have issued our report thereon dated May 15, 2023. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated February 2, 2023. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Sustainable Northwest are described in Note 2 to the financial statements. The Organization implemented Accounting Standards Update (ASU) No. 2016-02, *Leases*, for the year ended December 31, 2022. The standard requires leases to be recognized as right to use assets and lease liabilities on the statement of financial position and disclose key information about leasing arrangements.

No other new accounting policies were adopted, and the application of existing policies was not changed during 2022. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

The financial statements contain a departure from U.S. generally accepted accounting principles as a result of not consolidating the wholly-owned for-profit subsidiary, Sustainable Northwest Wood Distribution, Center, Inc. This departure resulted in a qualified opinion in the auditor's report.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events.

Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Receivables: Management believes all receivables are fully collectible and therefore, has not established an allowance for uncollectible accounts.

Right-of-use asset and operating lease liability: Management's estimate of the right-of-use asset and operating lease liability is based on the lease terms and incremental borrowing rate at the inception of the lease.

Allocation of Expenses: Management's estimate of the functional allocation of expenses is based on allocation bases of time and effort.

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There was one audit adjustment to implement the new lease standard resulting in an increase in right-of-use asset of approximately \$11,700, operating lease liability of approximately \$11,900, and lease expense of approximately \$300.

Disagreements with Management

For purposes of this letter, a disagreement with management is a disagreement on financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated May 15, 2023.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the Organization’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Directors and management of Sustainable Northwest and is not intended to be and should not be used by anyone other than these specified parties.

McDonald Jacobson, P.C.

SUSTAINABLE NORTHWEST

Audited Financial Statements

For the Year Ended December 31, 2022



McDONALD JACOBS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Sustainable Northwest

Opinion

We have audited the accompanying financial statements of Sustainable Northwest (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, except for not consolidating the wholly-owned subsidiary, Sustainable Woods Distribution, Inc., the financial statements referred to above present fairly, in all material respects, the financial position of Sustainable Northwest as of December 31, 2022, and the changes in 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 Qualified Opinion

The accompanying financial statements do not include financial information of the wholly-owned subsidiary, Sustainable Northwest Wood Distribution Center, Inc. Consolidation of this entity is required by accounting principles generally accepted in the United States of America. If consolidated, assets would have increased by \$656,000, liabilities increased by \$228,000, net assets increased by \$428,000, revenues increased by \$4,999,000 and expenses increased by \$4,884,000 (amounts approximate).

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 Sustainable Northwest 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 Sustainable Northwest's 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 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, 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 Sustainable Northwest's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Sustainable Northwest's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited Sustainable Northwest's 2021 financial statements, and we expressed a qualified audit opinion on those audited financial statements in our report dated May 19, 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.

McDonald Jacobson, P.C.

Portland, Oregon
May 15, 2023

SUSTAINABLE NORTHWEST
STATEMENT OF FINANCIAL POSITION
December 31, 2022
(With comparative totals for 2021)

	2022	2021
ASSETS		
Cash and cash equivalents	\$ 1,904,234	\$ 1,879,657
Certificates of deposit	2,013,345	2,005,633
Accounts receivable	109,943	67,682
Contributions and grants receivable	1,979,827	630,853
Prepaid expenses and other assets	46,667	18,796
Right-of-use asset	11,674	-
Investment in subsidiary	800,000	800,000
Property and equipment, net	19,530	23,303
 TOTAL ASSETS	 \$ 6,885,220	 \$ 5,425,924
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 395,934	\$ 105,860
Accrued personnel expenses	170,856	78,358
Operating lease liability	11,949	-
Deferred revenue	1,000	100,000
Total liabilities	579,739	284,218
Net assets:		
Without donor restrictions:		
Undesignated	2,660,511	2,222,256
Net property and equipment	19,530	23,303
Total without donor restrictions	2,680,041	2,245,559
With donor restrictions	3,625,440	2,896,147
Total net assets	6,305,481	5,141,706
 TOTAL LIABILITIES AND NET ASSETS	 \$ 6,885,220	 \$ 5,425,924

See notes to financial statements.

SUSTAINABLE NORTHWEST
STATEMENT OF ACTIVITIES
For the year ended December 31, 2022
(With comparative totals for 2021)

	2022			2021
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Support and revenue:				
Contributions	\$ 856,475	\$ 2,962,267	\$ 3,818,742	\$ 1,581,648
Government grants	973,822	-	973,822	763,072
Contracts	248,968	-	248,968	270,810
Program services	210,312	-	210,312	218,011
Special events	79,335	-	79,335	7,453
Interest and dividend income	10,371	-	10,371	80,550
Other income	1,102	-	1,102	3,184
Net assets released from restrictions:				
Satisfaction of purpose restrictions	2,232,974	(2,232,974)	-	-
Total support and revenue	4,613,359	729,293	5,342,652	2,924,728
Expenses:				
Program services	3,326,304	-	3,326,304	1,981,166
Management and general	624,645	-	624,645	476,635
Fundraising	227,928	-	227,928	171,921
Total expenses	4,178,877	-	4,178,877	2,629,722
Change in net assets	434,482	729,293	1,163,775	295,006
Net assets:				
Beginning of year	2,245,559	2,896,147	5,141,706	4,846,700
End of year	\$ 2,680,041	\$ 3,625,440	\$ 6,305,481	\$ 5,141,706

See notes to financial statements.

SUSTAINABLE NORTHWEST
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended December 31, 2022
(With comparative totals for 2021)

Program Services

	Forests	Water	Energy	Range- lands	Markets	Total Program Services	Management and General	Fundraising	2022 Total	2021 Total
Personnel expenses	\$ 725,936	\$ 171,548	\$ 179,153	\$ 122,398	\$ 265,672	\$ 1,464,707	\$ 378,148	\$ 149,982	\$ 1,992,837	\$ 1,654,122
Consultants and contractors	771,630	185,167	42,414	496,806	181,219	1,677,236	70,606	7,738	1,755,580	713,727
Travel	30,551	2,861	4,586	4,098	17,945	60,041	42,983	3,264	106,288	40,446
Rent	28,768	6,069	7,903	4,339	9,330	56,409	13,527	9,227	79,163	74,863
Telephone and internet	1,350	6	471	-	-	1,827	25,207	1,066	28,100	25,974
Meetings and workshops	3,865	775	5,133	49	1,198	11,020	7,801	43,229	62,050	3,507
Meals and networking	7,767	1,620	587	662	8,806	19,442	14,617	3,603	37,662	21,061
Office expense	782	65	237	203	130	1,417	12,819	2,036	16,272	21,864
Insurance	-	-	-	-	-	-	7,138	-	7,138	7,490
Equipment and field supplies	350	29	6,711	2,764	16,091	25,945	12,159	648	38,752	7,780
Licenses and fees	1,486	705	144	280	2,536	5,151	26,488	5,676	37,315	38,608
Professional training	764	99	295	-	949	2,107	608	1,138	3,853	6,708
Miscellaneous	517	-	-	-	485	1,002	4,921	321	6,244	5,682
Depreciation	-	-	-	-	-	-	7,623	-	7,623	7,890
Total expenses	<u>\$ 1,573,766</u>	<u>\$ 368,944</u>	<u>\$ 247,634</u>	<u>\$ 631,599</u>	<u>\$ 504,361</u>	<u>3,326,304</u>	<u>\$ 624,645</u>	<u>\$ 227,928</u>	<u>\$ 4,178,877</u>	<u>\$ 2,629,722</u>

See notes to financial statements.

SUSTAINABLE NORTHWEST
STATEMENT OF CASH FLOWS
For the year ended December 31, 2022
(With comparative totals for 2021)

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Change in net assets	\$ 1,163,775	\$ 295,006
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	7,623	7,890
(Increase) decrease in:		
Accounts receivable	(42,261)	(155,366)
Contributions and grants receivable	(1,348,974)	1,251,736
Prepaid expenses and other assets	(27,871)	3,181
Increase (decrease) in:		
Accounts payable	290,074	65,803
Accrued personnel expenses	92,498	1,497
Deferred revenue	(99,000)	100,000
Net operating right-of-use asset and lease liability	275	-
Net cash flows from operating activities	<u>36,139</u>	<u>1,569,747</u>
Cash flows from investing activities:		
Additions to certificates of deposit	(7,712)	(701,386)
Purchase of property and equipment	<u>(3,850)</u>	<u>-</u>
Net cash flows from investing activities	<u>(11,562)</u>	<u>(701,386)</u>
Net change in cash and cash equivalents	24,577	868,361
Cash and cash equivalents - beginning of year	<u>1,879,657</u>	<u>1,011,296</u>
Cash and cash equivalents - end of year	<u>\$ 1,904,234</u>	<u>\$ 1,879,657</u>
Supplemental cash flow information:		
Cash paid for operating lease	\$ 70,195	\$ -
Non-cash investing and financing activities:		
Obtaining right-of-use asset in exchange for lease liability	80,346	-

See notes to financial statements.

SUSTAINABLE NORTHWEST
NOTES TO FINANCIAL STATEMENTS
December 31, 2022

1. DESCRIPTION OF ORGANIZATION

Sustainable Northwest (the Organization) brings people, ideas, and innovation together so that nature, local economies, and rural communities can thrive. The Organization works to restore forests, rivers, and rangelands for healthier habitat and clean air and water. Bringing people together to find common ground heals the land and rebuilds rural economies.

Sustainable Northwest is an expert in facilitation, conflict resolution, and negotiation of multi-party agreements. The Organization crafts state and federal policy solutions that balance environmental and community needs and lends expertise in science, law, energy, and other technical knowledge, while mentoring local leaders to incite real, systemic change.

Sustainable Northwest collaborates with local people in rural communities across the Pacific Northwest to find long-term solutions for restoring ecosystems and creating jobs through improved land management practices and investments in new, green economies. Through collaboration, the Organization bridges rural and urban interests, encourages entrepreneurship, and builds trust in sustainable natural resource management and utilization in the western United States.

A summary of the Organization's programs is as follows:

Forests

Decades of fire suppression and litigation over logging have left degraded forests and dying towns. There is an urgent need to increase the pace and scale of restoration projects, and create jobs that make our forests resilient to the increasing threat of abnormal wildfire, insects, and disease. Sustainable Northwest has changed the conversation to "jobs for the environment" by bringing people together to create durable solutions that restore our Northwest forests.

- More large-scale restoration for healthier ecosystems, wildlife habitat, and forests that are resilient to the effects of climate change.
- Local and sustainable wood and biomass energy products.
- Clean, healthy, and abundant forest ecosystems for wildlife habitat and public enjoyment.
- Long-term, sustainable natural resource use for stable community economies with secure living wage jobs for rural people.

SUSTAINABLE NORTHWEST
NOTES TO FINANCIAL STATEMENTS, Continued
December 31, 2022

1. DESCRIPTION OF ORGANIZATION, Continued

Water

The competing needs of our cities, agriculture, fish, and energy production have led to water scarcity and pollution in the Pacific Northwest. Efforts to address water challenges in rural areas are often hampered by planning, financial, and social barriers. Historically, the response has been conflict, litigation, and emergency assistance. This has left our water-dependent ecosystems and communities imperiled.

- Enough clean water and habitat to support healthy populations of salmon and other native aquatic species.
- More basin-scale watershed restoration.
- Stable, sustainable water supply for cities and water-reliant livelihoods.
- Secure living wage jobs for rural people.

Energy

Implementation of local energy systems in rural areas is often hampered by the lack of coordinated planning, technical assistance, and financial and social barriers. With our on-the-ground partners and community leaders, Sustainable Northwest is developing lasting solutions through a collaborative community-based approach.

- Affordable access to local renewable energy.
- More energy efficient infrastructure.
- Stable and affordable power.
- Secure living wage jobs for rural people.

Rangelands

Decades of fire suppression have allowed Western Juniper to overtake rangelands, using precious water, and destroying habitat for sage grouse and other wildlife. By sustainably harvesting Western Juniper we are restoring rangelands to their natural state, and returning more water and a healthy wildlife habitat to the high desert.

- A balanced rangeland ecosystem with improved grazing conditions, increased water supplies, decreased wildfire risk, and restored habitat for sensitive wildlife like sage-grouse.
- Secure living wage jobs for rural people.
- New economic opportunities for sustainable wood products sourced from rangelands.

Markets

Sustainable Northwest believes that market-based approaches are one of the most effective and long lasting strategies for restoring our environment and rural economies. For 10 years we have helped wood products businesses by providing them with access to a Forest Stewardship Council (FSC) group chain of custody certification program. The group certification program makes obtaining FSC certification easier for members by reducing their certification cost and staff time and providing technical support.

SUSTAINABLE NORTHWEST
NOTES TO FINANCIAL STATEMENTS, Continued
December 31, 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements only include the financial activity of Sustainable Northwest. Financial information of Sustainable Northwest Wood Distribution Center, Inc., a wholly-owned for-profit corporation, is not included.

Net Assets

Net assets, revenues, gains, and losses are classified 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. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all highly liquid investments available for current use with maturities of three months or less at the time of purchase to be cash equivalents.

Accounts Receivable

Accounts receivable are reported at the amount management expects to collect on balances outstanding at year-end. Based on an assessment of the credit history with those having outstanding balances and current relationships with them, management has concluded that realization losses on balances outstanding at year-end will be immaterial. Accounts receivable more than ninety days past due total approximately \$27,600 and \$6,700 at December 31, 2022 and 2021, respectively.

Contributions and Grants Receivable

Contributions and grants receivable are unconditional promises to give. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years, if material to the financial statements, are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Contributions receivable are written off when deemed uncollectible.

SUSTAINABLE NORTHWEST
NOTES TO FINANCIAL STATEMENTS, Continued
December 31, 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Leases

The Organization determines if an arrangement is or contains a lease at inception. Under ASC 842, a contract is (or contains) a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is defined under the standard as having both the right to obtain substantially all of the economic benefits from use of the asset and the right to direct the use of the asset. Management only reassesses its determination if the terms and conditions of the contract are changed.

The lease is included in right-of-use (ROU) asset and operating lease liability in the statement of financial position. ROU asset represents the Organization's right to use an underlying asset for the lease term, and the operating lease liability represent the Organization's obligation to make lease payments. Operating lease ROU assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. The Organization has made an accounting policy election to use its incremental borrowing rate associated with the line of credit to discount future lease payments. Lease expense for lease payments is recognized on a straight-line basis over the lease term. The Organization's lease terms may include options to extend or terminate the lease when it is reasonably certain that the Organization will exercise the option.

The Organization does not report ROU assets and operating leases liabilities for its short-term leases (leases with a term of 12 months or less). Instead, the lease payments of those leases are reported as lease expense on a straight-line basis over the lease term.

Investment in Subsidiary

Investment in the Organization's wholly-owned subsidiary is accounted for using the cost method.

Property and Equipment

Acquisitions of property and equipment in excess of \$1,500 are capitalized. Property and equipment purchased are recorded at cost. Donated assets are reflected as contributions at their estimated values on the date received.

Depreciation

Depreciation of property and equipment is calculated using the straight-line method over the estimated useful lives of the assets which range from 3 to 10 years for most furniture and equipment. Leasehold improvements are capitalized and depreciated over the estimated useful life of the improvement or the lease term, whichever is less.

SUSTAINABLE NORTHWEST
NOTES TO FINANCIAL STATEMENTS, Continued
December 31, 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Revenue Recognition

The Organization recognizes revenue as follows:

Contributions: Contributions, which include unconditional promises to give (pledges), are recognized as revenues in the period the Organization is notified of the commitment. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met.

Government Grants: Government grants are conditioned upon certain performance requirements or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as advance on government grants on the statement of financial position. Committed (unearned and unrecognized) government grant awards available through July 2027 are approximately \$2.6 million at December 31, 2022.

Contracts and Program Services: Revenue from contracts with customers and fee for service arrangements is recognized when any performance obligations have been met. Funds received in advance for these services are reflected as deferred revenue on the statement of financial position.

Special Events: The Organization records special events revenue equal to the fair value of direct benefits to donors, and contribution income for the excess over the direct benefits when the event takes place. The portion of the sponsorship that relates to contribution revenue is recognized when the Organization is notified of the commitment. For the year ended December 31, 2022, special event revenues include \$40,896 in contribution revenue and \$38,439 in direct benefit event revenue.

Functional Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities and in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The Organization allocates personnel expenses and rent according to estimates of time and effort.

Income Tax Status

Sustainable Northwest is a nonprofit corporation exempt from income tax under section 501(c)(3) of the Internal Revenue Code and applicable state law. No provision for income taxes is made in the accompanying financial statements, as the Organization has no activities subject to unrelated business income tax. The Organization is not a private foundation.

SUSTAINABLE NORTHWEST
NOTES TO FINANCIAL STATEMENTS, Continued
December 31, 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Income Tax Status, Continued

The Organization follows the provisions of FASB ASC Topic 740 *Accounting for Uncertainty in Income Taxes*. Management has evaluated the Organization's tax positions and concluded that there are no uncertain tax positions that require adjustment to the financial statements to comply with provisions of this Topic.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure 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.

Subsequent Events

The Organization has evaluated all subsequent events through May 15, 2023, the date the financial statements were available to be issued.

Reclassifications

Certain receivables were reclassified from accounts receivable to contributions and grants receivable in the prior year statements to conform with the current year presentation.

Summarized Financial Information for 2021

The financial information as of December 31, 2021 and for the year then ended is presented for comparative purposes and is not intended to be a complete financial statement presentation.

Changes in Accounting Standard

Effective January 1, 2022, the Organization adopted Accounting Standards Update (ASU) No. 2016-02, *Leases*, which requires lessees to recognize leases on the statement of financial position and disclose key information about leasing arrangements. The Organization elected not to restate the comparative period (2021). It also elected not to reassess at adoption (i) expired or existing contracts to determine whether they are or contain a lease, (ii) the lease classification of any existing leases, or (iii) initial direct costs for existing leases. As a result of implementing ASU No. 2016-02, the Organization recognized a right-of-use asset of \$80,346 and an operating lease liability totaling \$80,346 in its statement of financial position as of January 1, 2022. The adoption did not result in a significant effect on amounts reported in the statement of activities for the year ended December 31, 2022.

SUSTAINABLE NORTHWEST
NOTES TO FINANCIAL STATEMENTS, Continued
December 31, 2022

3. AVAILABLE RESOURCES AND LIQUIDITY

The Organization regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Organization considers all expenditures related to its primary operations to be general expenditures. It excludes financial assets with donor or other restrictions limiting their use.

Financial assets available for general expenditure consist of the following at December 31, 2022 and December 31, 2021:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 1,904,234	\$ 1,879,657
Certificates of deposit	2,013,345	2,005,633
Accounts receivable	109,943	350,535
Contributions and grants receivable	<u>1,979,827</u>	<u>348,000</u>
	6,007,349	4,583,825
Less amounts unavailable for general expenditure:		
Net assets with donor restrictions	<u>3,625,440</u>	<u>2,896,147</u>
Financial assets available for general expenditure	<u>\$ 2,381,909</u>	<u>\$ 1,687,678</u>

The Organization also has a \$200,000 line of credit available to meet general expenditure needs. See Note 8.

4. CERTIFICATES OF DEPOSIT

The Organization holds several 6-month certificates of deposit that automatically renew. The certificates mature at various dates through September 2023 and earn an average rate of .8%.

5. CONTRIBUTIONS AND GRANTS RECEIVABLE

Contributions and grants receivable represent unconditional promises to give and are expected to be received as follows:

	<u>2022</u>	<u>2021</u>
Within one year	\$ 1,479,989	\$ 630,853
Within two to five years	499,838	-
Total contributions and grants receivable	<u>\$ 1,979,827</u>	<u>\$ 630,853</u>

SUSTAINABLE NORTHWEST
NOTES TO FINANCIAL STATEMENTS, Continued
December 31, 2022

5. CONTRIBUTIONS AND GRANTS RECEIVABLE, Continued

During the year ended December 31, 2021, the Organization was awarded a 3-year conditional grant of which \$79,000 is remaining on the condition to raise matching funds. Funds will be recognized as revenue upon meeting the matching requirement.

6. INVESTMENT IN SUBSIDIARY

Investment in subsidiary of \$800,000 represents the Organization's equity ownership in Sustainable Northwest Wood Distribution Center, Inc., the Organization's wholly-owned subsidiary. This entity uses local sustainable wood by salvaging and upcycling wood from the waste stream and creating economic wood products for the community.

The financial statements do not include the activity or disclose financial information of Sustainable Northwest Wood Distribution Center, Inc. Accounting principles generally accepted in the United States of America require consolidation if there is a controlling financial interest; or if not consolidated, require disclosure of summarized financial information for those entities. Summarized financial information for Sustainable Northwest Wood Distribution Center, Inc. is as follows:

	2022	2021
Assets	\$ 1,455,930	\$ 1,705,877
Liabilities	228,284	655,588
Equity	1,227,646	1,050,289
Revenues	4,999,183	5,693,945
Costs of good sold	3,494,016	4,167,374
Operating expenses, net	1,399,207	1,166,083
Net income	105,960	360,488

The Organization received dividend distributions from Sustainable Northwest Wood Distribution Center, Inc. of approximately \$75,000 in 2021.

SUSTAINABLE NORTHWEST
NOTES TO FINANCIAL STATEMENTS, Continued
December 31, 2022

7. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31, 2022 and 2021:

	2022	2021
Furniture and equipment	\$ 60,126	\$ 56,276
Leasehold improvements	9,913	9,913
Total property and equipment	70,039	66,189
Less accumulated depreciation	50,509	42,886
Property and equipment, net	\$ 19,530	\$ 23,303

8. LINE OF CREDIT

The Organization has a \$200,000 stand-alone revolving line of credit with a financial institution. Interest on the line is payable monthly on outstanding advances at the prime rate plus 1%, not falling below 4% (4.25% at December 31, 2022 and 3.25% at December 31, 2021). The line matures October 2023 and is secured by all assets of the Organization. There were no outstanding advances on the line at December 31, 2022 and 2021.

9. OPERATING LEASES

The Organization evaluated current contracts to determine which met the criteria of a lease. The right-of-use (ROU) asset represents the Organization's right to use the underlying asset for the lease term, and the operating lease liability represents the Organization's obligation to make lease payments arising from the lease. The ROU asset and operating lease liability, which is characterized as an operating lease, were calculated based on the present value of future lease payments over the lease terms.

The Organization's operating lease consists of a lease for office space (14 months remaining as of January 1, 2022) expiring in February 2023. (The lease was not renewed.) The Organization also has short-term leases for parking and office equipment.

The statement of financial position reflects a ROU asset of \$11,674 and operating lease liability of \$11,849 as of December 31, 2022.

The discount rate applied to calculate operating lease liability as of December 31, 2022 is 4.25%.

SUSTAINABLE NORTHWEST
NOTES TO FINANCIAL STATEMENTS, Continued
December 31, 2022

9. OPERATING LEASES, Continued

The maturities of the operating lease liability as of December 31, 2022 are as follows:

Year ending December 31, 2023	\$ 12,020
Less discount	<u>(346)</u>
Present value of operating lease liability	<u>\$ 11,674</u>

For the year ended December 31, 2022, total operating lease cost was approximately \$70,500 and short term leases cost were approximately \$8,700.

Cash paid for operating leases for the year ended December 31, 2022 was approximately \$70,200. Noncash investing and financing transactions related to leasing approximated \$80,300.

Rent expense under FASB ASC 840 (pre-adoption of the new standards) for operating leases totaled approximately \$74,900 for the year ended December 31, 2021. The aggregate minimum lease payments under those operating leases as of December 31, 2021, were as follows:

Year ending December 31, 2022	\$ 70,200
2023	<u>12,000</u>
	<u>\$ 82,200</u>

In November 2022, the Organization entered into a new operating lease agreement for office space, that begins in March 2023 and expires in August 2028. Subsequent to year end, the Organization will recognize a right-of-use asset and operating liability of approximately \$393,400 with future maturities as follows:

Year ending December 31, 2023	\$ 62,500
2024	76,875
2025	79,181
2026	81,557
2027	84,003
Thereafter	<u>57,542</u>
Total	\$ 441,658
Less discount	<u>(48,282)</u>
Present value of operating lease liability	<u>\$ 393,376</u>

SUSTAINABLE NORTHWEST
NOTES TO FINANCIAL STATEMENTS, Continued
December 31, 2022

10. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following expiring restrictions at December 31, 2022 and 2021:

	2022	2021
Klamath Basin (Water)	\$ 358,333	\$ 201,697
Oregon coastal community initiative (Forest)	16,921	50,000
Wildfire and forest resiliency (Forest)	2,425,510	2,146,708
Future of Collaboration (Forest)	90,000	-
John Day (Water)	40,833	90,833
Green market (Markets)	10,000	225,000
Regenerative Ranching	313,330	-
Renewable tribal energy	152,000	128,000
Other program restrictions	218,513	53,909
Total net assets with donor restrictions	\$ 3,625,440	\$ 2,896,147

11. REVENUE FROM CONTRACTS WITH CUSTOMERS

For revenue from contracts with customers, the timing of revenue recognition, billings, and cash collections may result in contract assets from billed accounts receivable or unbilled accounts receivable and contract liabilities, including deferred revenue on the statement of financial position.

- Revenue from fee for service work is recognized over time as work is completed and the performance obligations are met.
- Revenue from certification fees and other services is recognized at a point in time when the performance obligations are satisfied based on providing the certification.
- Revenue from events is recognized at a point in time when the event occurs.

SUSTAINABLE NORTHWEST
NOTES TO FINANCIAL STATEMENTS, Continued
December 31, 2022

11. REVENUE FROM CONTRACTS WITH CUSTOMERS, Continued

The following table shows the Organization's revenue disaggregated according to the timing of the transfer of goods or services:

	<u>2022</u>	<u>2021</u>
Program Services:		
Certifications (point in time)	\$ 198,551	\$ 196,613
Sales (point in time)	11,760	21,398
Contract Services:		
Fee for service (over time)	203,969	270,810
Other services (point in time)	45,000	-
Event revenue (point in time)	<u>38,439</u>	<u>7,443</u>
	<u>\$ 497,719</u>	<u>\$ 496,264</u>

The following table provides information about significant changes in the contract assets and liabilities:

	As of December 31,		
	<u>2022</u>	<u>2021</u>	<u>2020</u>
Contract Assets:			
Program and fee receivables (over time)	\$ 109,943	\$ 67,682	\$ 110,765
Other receivables	<u>-</u>	<u>-</u>	<u>672</u>
Total contract assets	<u>\$ 109,943</u>	<u>\$ 67,682</u>	<u>\$ 111,437</u>
Contract Liabilities:			
Advances-fee for service (over time)	<u>\$ 1,000</u>	<u>\$ 100,000</u>	<u>\$ -</u>
Total contract liabilities	<u>\$ 1,000</u>	<u>\$ 100,000</u>	<u>\$ -</u>

Contract liabilities recognized as revenue were \$100,000 in 2022.

12. RETIREMENT PLAN

The Organization provides all employees who have more than six months of service with a tax-sheltered annuity plan as described under Section 403(b) of the Internal Revenue Code. The Organization is required to contribute 5% of qualified salaries. Contributions by the Organization for 2022 and 2021 totaled approximately \$63,700 and \$58,200, respectively.

SUSTAINABLE NORTHWEST
NOTES TO FINANCIAL STATEMENTS, Continued
December 31, 2022

13. CONCENTRATIONS OF CREDIT RISK

The Organization maintains its cash balances in several financial institutions. Balances in each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. The balances, at times, may exceed the federally insured limit. Balances in excess of insured limits were approximately \$1,350,900 and \$1,384,100 as of December 31, 2022 and 2021, respectively.

The Organization is also the guarantor on Sustainable Northwest Wood Distribution Center, Inc.'s \$425,000 line of credit.

Credit risk for contributions and grants receivable is concentrated in that 65% of the total balance is from three entities at December 31, 2022 (36% from two entities at December 31, 2021). Revenues are concentrated with 38% coming from one foundation and one government agency for the year ended December 31, 2022. There was no concentration in 2021. In addition, substantially all of the balances are receivable from organizations and individuals located within the same geographic region.

14. CONTINGENCY

Amounts received or receivable from various contracting agencies are subject to audit and potential adjustment by the contracting agencies. Any disallowed claims, including amounts already collected, would become a liability of the Organization if so determined in the future. Management believes that no significant amounts received or receivable will be required to be returned in the future.

15. COMMITMENTS

The Organization entered into contractual agreements with contractors during 2022 to provide restoration services. The commitment remaining under the contractual agreements is approximately \$1,020,000 as of December 31, 2022.