FOOD LIFELINE AND FOOD LIFELINE FOUNDATION

COMBINED FINANCIAL REPORT

JUNE 30, 2017

C O N T E N T S

Note: There were no prior year findings or questioned costs relative to federal awards, so a schedule of prior audit findings is not included.

petersonsullivan LLP
Certified Public Accountants
& Advisors

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Food Lifeline and Food Lifeline Foundation
Seattle, Washington

We have audited the accompanying combined financial statements of Food Lifeline and Food Lifeline Foundation ("the Organization"), which comprise the combined statements of financial position as of June 30, 2017 and 2016, and the related combined statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States; 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 combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States 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 combined 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 combined financial statements.

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

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Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

Supplementary Information - Schedule of Expenditures of Federal Awards

Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the combined financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2017, on our consideration of the Organization's 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 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 the Organization's internal control over financial reporting and compliance.

Peterson Sullivan LLP

October 26, 2017

FOOD LIFELINE AND FOOD LIFELINE FOUNDATION

COMBINED STATEMENTS OF FINANCIAL POSITION

June 30, 2017 and 2016

ASSETS	2017	2016
Current Assets		
Cash and cash equivalents	$ 4,028,196	$ 2,152,826
Investments	1,155,232	1,008,327
Grants receivable	193,944	202,260
Contributions receivable, current portion	105,000	213,000
Other receivables	146,617	609,481
Prepaid expenses	180,608	169,237
Inventory	4,185,691	3,667,325
Total current assets	9,995,288	8,022,456
Restricted Cash	245,361	5,670,402
Contributions Receivable, net	332,804	211,804
Contributions Receivable - Hunger Solution Center, net	4,558,410	7,679,345
Security Lease Deposit		519,608
Note Receivable	5,182,925	5,182,925
Property and Equipment, net	30,187,271	8,397,430
Total assets	$ 50,502,059	$ 35,683,970

LIABILITIES AND NET ASSETS	2017	2016
Current Liabilities		
Accounts payable and accrued expenses	$ 392,138	$ 271,248
Accrued payroll expenses	357,293	306,308
Current portion of loans payable	303,184	
Total current liabilities	1,052,615	577,556
Long-Term Liabilities		
Loans payable, net of current portion	17,836,816	
Notes payable, net of loan fees	7,347,396	7,337,655
Lease deposit	49,794	
Deferred rent liability		3,102,108
Total long-term liabilities	25,234,006	10,439,763
Total liabilities	26,286,621	11,017,319
Net Assets		
Unrestricted	23,495,447	11,992,578
Temporarily restricted	719,991	12,674,073
Total net assets	24,215,438	24,666,651
Total liabilities and net assets	$ 50,502,059	$ 35,683,970

See Notes to Combined Financial Statements

FOOD LIFELINE AND FOOD LIFELINE FOUNDATION

COMBINED STATEMENTS OF ACTIVITIES

For the Years Ended June 30, 2017 and 2016

	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenue						
Contributions						
Foundations and corporations	$ 2,368,593	$ 384,164	$ 2,752,757	$ 2,087,847	$ 20,802	$ 2,108,649
Individuals	2,998,285	16,729	3,015,014	2,667,029	5,000	2,672,029
In-kind donations	3,046		3,046	138,384		138,384
Grants from government agencies	1,943,083		1,943,083	2,136,669		2,136,669
Community events	1,485,482		1,485,482	1,126,230		1,126,230
Program revenue	1,148,278		1,148,278	1,165,590		1,165,590
Rental income	457,646		457,646			
Investment income, net of fees	79,741		79,741	7,281		7,281
Interest income - note receivable	74,681		74,681	41,904		41,904
Other income	24,768		24,768	70,000		70,000
Net assets released from restrictions	12,354,975	(12,354,975)		7,868,195	(7,868,195)	
Total revenue, excluding in-kind food and Hunger Solution Center - campaign contributions	22,938,578	(11,954,082)	10,984,496	17,309,129	(7,842,393)	9,466,736
Expenses						
Program services	6,806,382		6,806,382	6,604,479		6,604,479
Management and general	1,535,052		1,535,052	1,356,490		1,356,490
Fund-raising	1,939,702		1,939,702	1,478,081		1,478,081
Total expenses, excluding food procurement, processing, and distribution, and Hunger Solution Center	10,281,136		10,281,136	9,439,050		9,439,050
Change in Net Assets before Food Revenue and Expense and Hunger Solution Center - Campaign	**12,657,442**	**(11,954,082)**	**703,360**	**7,870,079**	**(7,842,393)**	**27,686**
Food Revenue and Expense						
In-kind food contributions revenue	72,252,388		72,252,388	65,424,002		65,424,002
Food procurement, processing, and distribution	(74,107,291)		(74,107,291)	(66,987,296)		(66,987,296)
Net food expense	(1,854,903)		(1,854,903)	(1,563,294)		(1,563,294)
Hunger Solution Center - Campaign						
Contributions	839,384		839,384		4,324,193	4,324,193
Expenses	(139,054)		(139,054)	(815,364)		(815,364)
Net assets released from restrictions				815,364	(815,364)	
Net Hunger Solution Center - campaign	700,330		700,330		3,508,829	3,508,829
Change in Net Assets	**11,502,869**	**(11,954,082)**	**(451,213)**	**6,306,785**	**(4,333,564)**	**1,973,221**
Net Assets, beginning of year	11,992,578	12,674,073	24,666,651	5,685,793	17,007,637	22,693,430
Net Assets, end of year	$ 23,495,447	$ 719,991	$ 24,215,438	$ 11,992,578	$ 12,674,073	$ 24,666,651

See Notes to Combined Financial Statements

FOOD LIFELINE AND FOOD LIFELINE FOUNDATION

COMBINED STATEMENTS OF FUNCTIONAL EXPENSES

For the Years Ended June 30, 2017 and 2016

	2017				2016			
	Program Services	Management and General	Fund-raising	Total	Program Services	Management and General	Fund-raising	Total
Salaries	$ 2,697,757	$ 684,506	$ 644,241	$ 4,026,504	$ 2,466,847	$ 601,577	$ 586,973	$ 3,655,397
Payroll taxes and employee benefits	692,710	134,106	143,147	969,963	633,959	121,473	131,048	886,480
Total salaries and related expenses	3,390,467	818,612	787,388	4,996,467	3,100,806	723,050	718,021	4,541,877
Occupancy	1,761,877	54,762	72,071	1,888,710	2,433,829	115,068	45,657	2,594,554
Professional fees	252,351	281,773	489,781	1,023,905	123,213	237,214	326,627	687,054
Depreciation	565,204	84,781	103,621	753,606	283,641	43,298	51,957	378,896
Supplies and postage	142,406	45,676	53,776	241,858	131,351	34,523	32,364	198,238
Insurance	122,545	18,382	22,467	163,394	125,890	19,269	23,123	168,282
Advertising and printing	9,935	11,655	187,620	209,210	8,397	18,510	93,573	120,480
Interest	158,075	11,373	14,553	184,001	57,842	3,164	2,274	63,280
Repairs and maintenance	147,279			147,279	125,719			125,719
Conferences and travel	47,357	33,095	19,611	100,063	29,338	23,903	20,114	73,355
TEFAP Agency expense	89,000			89,000	60,439			60,439
Telephone	20,064	2,556	3,124	25,744	30,914	3,934	4,721	39,569
Other	99,822	172,387	185,690	457,899	93,100	134,557	159,650	387,307
Total expenses, excluding food procurement, processing, distribution, and Hunger Solution Center	6,806,382	1,535,052	1,939,702	10,281,136	6,604,479	1,356,490	1,478,081	9,439,050
Food procurement, processing, and distribution	74,107,291			74,107,291	66,987,296			66,987,296
Hunger Solution Center - campaign expenses			139,054	139,054			815,364	815,364
Total expenses	$ 80,913,673	$ 1,535,052	$ 2,078,756	$ 84,527,481	$ 73,591,775	$ 1,356,490	$ 2,293,445	$ 77,241,710

See Notes to Combined Financial Statements

FOOD LIFELINE AND FOOD LIFELINE FOUNDATION

COMBINED STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities		
Change in net assets	$ (451,213)	$ 1,973,221
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	753,606	378,896
Amortization of debt issuance costs	9,741	4,870
Unrealized loss (gain) on investments	(44,851)	26,128
Contributions restricted for purchase of long-term asset purchases	(839,384)	(4,324,193)
Changes in operating assets and liabilities		
Grants receivable and promise to give	8,316	240,849
Contributions receivable	(13,000)	259,303
Food inventory	(518,366)	(1,208,182)
Accounts payable and accrued expenses	120,890	(191,201)
Accrued payroll expenses	50,985	69,219
Prepaid expenses and other current receivables	451,493	405,684
Lease deposit	49,794	
Deferred rent liability		1,715,247
Net cash flows from operating activities	(421,989)	(650,159)
Cash Flows from Investing Activities		
Proceeds from sales on investments	130,094	1,134,446
Purchase of investments	(232,148)	(1,280,831)
Decrease (increase) in cash restricted for investment in long-term asset and contractual reserve	5,425,041	(1,788,434)
Note receivable funds loaned		(5,182,925)
Purchase of property and equipment	(25,125,947)	(7,113,664)
Net cash flows from investing activities	(19,802,960)	(14,231,408)
Cash Flows from Financing Activities		
Contributions received for purchases of long-term assets	3,960,319	7,523,501
Proceeds from bridge loan	18,140,000	
Proceeds from notes payable		7,625,000
Payment of debt issuance costs		(292,215)
Net cash flows from financing activities	22,100,319	14,856,286
Net change in cash and cash equivalents	**1,875,370**	**(25,281)**
Cash and Cash Equivalents, beginning of year	2,152,826	2,178,107
Cash and Cash Equivalents, end of year	$ 4,028,196	$ 2,152,826
Noncash investing Activity		
Tenant improvements funded by landlord	$ -	$ 1,256,754
Supplementary Information		
Cash paid for interest	$ 174,260	$ 63,280

See Notes to Combined Financial Statements

NOTES TO COMBINED FINANCIAL STATEMENTS

Note 1. Organization and Significant Accounting Policies

Organization

Food Lifeline is a nonprofit corporation established in 1979. Food Lifeline's mission is to procure, warehouse, and distribute food to emergency food banks and meal programs, raise community awareness of hunger issues, and work toward long-term solutions for the problem of hunger in Western Washington. Food Lifeline is a member of Feeding America, a network of over 200 affiliate member agencies throughout the United States.

During the years ended June 30, 2017 and 2016, Food Lifeline had an ongoing capital campaign to acquire warehouse and office space to be called the Hunger Solution Center. In May of 2017, the Hunger Solution Center and adjacent property was acquired by Food Lifeline through the utilization of funds raised through the capital campaign and a bridge loan. There was significant activity relating to the purchase of the Hunger Solution Center and the capital campaign, which impacted restricted net assets, contributions receivable, property and equipment, and long term liabilities. These amounts are explained in the footnotes below.

Food Lifeline is affiliated with the Food Lifeline Foundation ("the Foundation"). The Foundation's primary purpose is to support the mission of Food Lifeline (primarily in the acquisition of the Hunger Solution Center). The Foundation is legally separate from Food Lifeline. The Foundation is combined with Food Lifeline for financial reporting purposes because of the nature and significance of its relationship with Food Lifeline.

Food Lifeline procures its food primarily through donations. Total food distributed in pounds by Food Lifeline in fiscal years 2017 and 2016 was procured as follows:

	2017	2016
Donated by local food industry	81%	78%
Donated by national food industry (through Feeding America)	2	4
Donated by the U.S. Department of Agriculture	11	12
Purchased	6	6
	100%	100%

In addition to the food donated by the U.S. Department of Agriculture, Food Lifeline is also partially funded under programs with the Emergency Food and Shelter Program ("EFSP"), the Washington State Department of Community Development, King County Planning and Community Development Division, and the Seattle Department of Housing and Human Services. Government cash awards consisted of the following:

	2017	2016
EFSP	$ 153,427	$ 149,922
City and County governmental agencies	929,438	1,053,093
Federal and State governmental programs:		
EFAP - Emergency Food Assistance Program	305,393	295,133
TEFAP - The Emergency Food Assistance Program	327,293	307,247
CACFP - Child and Adult Care Feeding Program	181,715	151,698
SFSP - Summer Food Service Program	45,817	179,576
	$ 1,943,083	$ 2,136,669

Principles of Combination

The combined financial statements include the accounts of Food Lifeline and the Foundation. Collectively, these entities are called "the Organization" in these combined financial statements. All significant inter-entity transactions have been eliminated in combination.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from the estimated amounts.

Financial Statement Presentation

The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Organization has no permanently restricted net assets, so this class of net assets is not shown on the financial statements. Contributions that are received are recorded as unrestricted or temporarily restricted support depending on the existence and/or nature of any donor restrictions.

Temporarily Restricted Net Assets

Temporarily restricted net assets consist of unexpended contributions restricted for particular purposes or time periods, and contributions to be received in future years. If the Organization receives a temporarily restricted contribution and it meets the restrictions in the same year the contribution is received, then it records the contribution as unrestricted revenue. Temporarily restricted net assets consist of the following at June 30:

	2017	2016
Funds to be used for acquisition of new Hunger Solution Center	$ -	$ 12,109,522
Funds to be used for child nutrition programs	311,551	511,749
Funds to be used in future years	272,000	27,000
Funds to be used for purchase of generator	73,100	
Funds to be used for purchase of beef	53,490	5,802
Funds to be used for rural food distribution	7,105	
Funds to be used for purchase of produce and dairy	2,745	20,000
	$ 719,991	$ 12,674,073

Fair Value Measurements

Fair value is a market-based measurement determined based on assumptions that market participants would use in pricing an asset or liability. There are three levels that prioritize the inputs used in measuring fair value as follows:

Level 1: Observable market inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2: Observable market inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and
Level 3: Unobservable inputs where there is little or no market data, which require the reporting entity to develop its own assumptions.

The Organization reports its investments (discussed below) at fair value on a recurring basis.

Cash and Cash Equivalents

Cash and cash equivalents include cash in banks and money market funds. The Organization considers all short-term securities with an original maturity of three months or less to be cash. The Organization has amounts deposited with financial institutions in excess of federally insured limits.

Investments

Investments are reported at their fair values in the combined statements of financial position. The fair value of the investments was determined using Level 1 observable market inputs within the fair value hierarchy, consisting of quoted prices in active markets for identical assets. Investments are summarized as follows at June 30:

	2017	2016
Fixed income mutual funds:		
Intermediate term bond funds	$ 328,867	$ 336,761
High yield bond funds	153,473	146,291
Global bond funds	97,970	94,626
Equity mutual funds:		
Equity income funds	324,598	252,912
Global equity funds	121,978	95,825
Corporate bonds	40,875	48,758
Publicly traded common stocks	87,471	33,154
	$ 1,155,232	$ 1,008,327

Unrealized gains and losses are included in the change in net assets in the combined statements of activities. Investment income (loss), net of fees, consisted of the following for the years ended June 30:

	2017	2016
Interest and dividends	$ 44,047	$ 41,544
Unrealized gains/(losses)	44,851	(26,128)
Investment fees	(9,157)	(8,135)
	$ 79,741	$ 7,281

Contributions Receivable

Contributions receivable consist of goods or cash pledged from various entities but not yet received. Short-term contributions are recorded at net realizable value. Long-term contributions receivable are recognized at fair value (at the time of the donation) and are measured at the present value of their expected cash flow. In arriving at fair value, management has discounted these contributions using an estimated risk-adjusted discount rate and an allowance for doubtful accounts. Amortization of any discount is included in contribution revenue.

Contributions receivable consist of the following at June 30:

	2017	2016
Amounts due in:		
Less than one year	$ 105,000	$ 213,000
One to five years	335,000	214,000
Total gross contributions receivable	440,000	427,000
Less: unamortized discount (2% - 3%)	(2,196)	(2,196)
	$ 437,804	$ 424,804

These amounts are included in the combined statements of financial position as follows:

	2017	2016
Current contributions receivable	$ 105,000	$ 213,000
Long-term contributions receivable	332,804	211,804
	$ 437,804	$ 424,804

Of the total contributions receivable at June 30, 2017 and 2016, 97% and 94% were due from three and one entities, respectively.

As previously mentioned, the Organization had a capital campaign to raise funds for the purchase of the Hunger Solution Center. Contributions receivable - Hunger Solution Center are for the capital campaign and consist of the following at June 30:

	2017	2016
Amounts due in:		
Less than one year	$ 1,801,613	$ 4,071,951
One to five years	2,836,010	3,811,292
More than five years	75,000	101,414
Total gross contributions receivable	4,712,623	7,984,657
Less: unamortized discount (2% - 4%)	(154,213)	(305,312)
	$ 4,558,410	$ 7,679,345

Of the total contributions receivable related to the Hunger Solution Center at June 30, 2017 and 2016, 64% and 50% were due from three and one entities, respectively.

As the pledges were restricted for the purchase of long-lived assets, all amounts are considered long term.

In fiscal year 2014, the Organization received a Hunger Solution Center campaign contribution, which was contingent upon future events occuring for the Organization to receive funding under the terms of the contribution. Management of the Organization determined that the likelihood of not achieving the contingency was remote and recogized the contribution as Hunger Solution Center campaign contribution in 2014. The contribution was for $5,000,000 from a corporation and is contingent upon the continued operation of a restaurant in the corporation's facilities for a period of four years, in which the restaurant is not in default of any of its rental obligations. In May 2017, the corporation requested and the restaurant agreed to vacate the leased premises. The restaurant was owned by a former board member of the Food Lifeline. The corporation has agreed to an alternate manner for the restaurant to fulfill conditions to the corporation in support of the remaining installments of the pledge from corporation to Food Lifeline. Both the corporation and restaurant owner have affirmed this alternate condition is expected to be met based on a long-standing relationship between the two entities. Payments on the contribution are due in annual installments. As of June 30, 2017, the Organization has received three installments with a receivable of $2,000,000 related to this contribution still outstanding. The receivable is included with contributions receivable – Hunger Solution Center on the combined statements of the financial position.

Grants Receivable

Grants receivable consist of grants and contracts administered by various state and local governmental agencies awarded or earned, but not yet received. Revenue from these grants and contracts is subject to audit, which could result in adjustments to revenue. The adjustments are recorded at the time that such amounts can first be reasonably determined, normally upon notification by the government agency. During the years ended June 30, 2017 and 2016, no such adjustments were made. Of total grants receivable at June 30, 2017 and 2016, essentially all receivables were due from four organizations.

Inventory

Inventory consists of food to be distributed to persons in need. Food contributed by the U.S. Department of Agriculture ("USDA") and contributed food inventory from sources other than the USDA are recognized based on wholesale, per-pound food prices provided by Feeding America.

Purchased food inventory is recorded at cost (first-in, first-out method). Food inventory consisted of the following on June 30:

	2017	2016
Donated food	$ 2,330,044	$ 2,303,859
USDA Commodities	1,381,584	836,583
Purchased food	474,063	526,883
	$ 4,185,691	$ 3,667,325

Property and Equipment

Property and equipment is recorded at cost, if purchased or at fair value at the date of receipt, if donated. The Organization's policy is to capitalize assets with a cost or donated value greater than $5,000 and a useful life in excess of one year. Depreciation is computed by the straight-line method over the estimated useful lives of the assets. Building improvements are amortized on a straight-line basis using their estimated service lives.

Property and equipment consists of the following at June 30:

	2017	2016
Land	$ 4,665,164	$ -
Building and improvements	23,717,899	5,928,094
Warehouse refrigeration	1,375,832	1,404,916
Office furniture and equipment	1,304,583	1,295,919
Vehicles	839,380	843,856
Warehouse equipment	892,489	892,489
	32,795,347	10,365,274
Less: accumulated depreciation	(2,740,427)	(2,012,881)
	30,054,920	8,352,393
Construction in progress	132,351	45,037
	$ 30,187,271	$ 8,397,430

In May 2017, the Organization completed its acquisition of the Hunger Solution Center. As part of the acquisition, the Organization took out a bridge loan to finance a portion of the purchase. This is discussed further in Note 4.

Deferred Rent Liability

Prior to the acquisition of the Hunger Solution Center, the Organization had an operating lease agreement for the Hunger Solution Center that contained provisions for future rent increases, periods in which rent payments were reduced (abated), and in which the landlord had granted approximately $1.2 million in tenant improvement allowances to be received after improvement costs were incurred. In accordance with generally accepted accounting principles, the Organization recorded monthly rent expense equal to the total of the payments due over the lease term, less the improvement allowance received, divided by the number of months of the lease term. The difference between the rent expense recorded and the amount paid is credited or charged to deferred rent liability, which was reflected as a separate line item in the accompanying combined statements of financial position.

With the acquisition of the Hunger Solution Center, the deferred rent liability was released and incorporated into the purchase price of the Hunger Solution Center (in accordance with generally accepted accounting principles).

In-Kind Donations

In-kind services recognized in these combined financial statements include legal fees, supplies, and frozen food storage. These amounts are included in in-kind donations and related expenses and are included in their natural expense account classifications. For the years ended June 30, 2017 and 2016, these donations represented primarily frozen food storage and professional services and amounted to $3,046 and $138,384, respectively. With the move into the Hunger Solution Center the Organization increased its frozen food storage capacity and as a result less donated frozen food storage was needed. The decrease in donated frozen food storage space was the primary reason for the decrease in in-kind services.

Additionally, the Organization received donated auction items, decorations, and supplies for special events that were valued at $16,747 and $57,053 for the years ended June 30, 2017 and 2016, respectively. This revenue is included with community event revenue on the combined statements of activities.

The Organization records donated food for distribution at the wholesale food prices as noted above. Donated food amounted to $72,252,388 and $65,424,002 for the years ended June 30, 2017 and 2016.

The Organization receives a significant amount of volunteer services from individuals and businesses that do not meet the criteria for recognition and are not reflected in the accompanying combined financial statements.

Program Revenue

The Organization charges various food agencies for shared maintenance costs and delivery costs for housing and delivering food. The Organization's largest program is called Order Up!, in which the Organization purchases specific items requested by various agencies and then delivers the requested food to the purchasing agency. Program revenue is recognized when orders have been delivered and the amounts can be billed.

Advertising and Printing

Advertising and printing costs are expensed as incurred.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the combined statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services that received benefit.

Income Taxes

Both Food Lifeline and the Foundation are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

Subsequent Events

The Organization has evaluated subsequent events through the date these financial statements were available to be issued, which was October 26, 2017.

Note 2. Restricted Cash

The Organization had restricted cash associated with the unspent funds under the Hunger Solution Center capital campaign for cash restricted for the purchase of long-term assets. These funds were released from restriction with the purchase of the Hunger Solution Center. Additionally, the Organization operates under the provision of a reserve agreement, which restricts the uses of funds for interest on notes payable and annual management fee payments to the lenders. The interest and management fee reserves are held in a separate account as required by the lending agreement. Restricted cash consists of the following at June 30:

	2017	2016
Hunger Solution Center - capital campaign	$ -	$ 5,373,187
Interest and management fee reserves	245,361	297,215
	$ 245,361	$ 5,670,402

Note 3. Note Receivable

As part of the New Market Tax Credit transaction (see Note 4), the Organization entered into an agreement to lend $5,182,925 to Twain Investment Fund 132, LLC ("Twain"). The note receivable totaling $5,182,925 at June 30, 2017, is reported at its outstanding balance and is considered to be fully collectible. The note is secured by Twain's 99.99% interest in USBCDE Sub-CDE 136, LLC and CCG Sub-CDE 35, LLC. The assets of these entities consist primarily of amounts due from the Organization (see Note 4). The interest rate on the note is fixed at 1.4409%. Interest is receivable monthly throughout the term of the loan, and beginning on December 15, 2023, Twain will commence making monthly principal payments. All principal and unpaid interest are due and receivable on November 1, 2045. At June 30, 2017, there was no remaining obligation to fund the note receivable.

Future minimum receipts under the note receivable are as follows for the years ending June 30:

2018 - 2022	$ -
2023 - 2027	704,363
2028 - 2032	1,095,299
2033 - 2037	1,177,071
2038 - 2042	1,264,948
2043 - 2046	941,244
	$ 5,182,925

Note 4. Debt

Notes Payable

In December 2015, the Organization entered into a New Markets Tax Credit transaction to help finance building improvements for the Hunger Solution Center. There were four separate promissory notes signed on December 9, 2015, to borrow a total of $7,625,000 from USBCDE Sub-CDE 136, LLC and CCG Sub-CDE 35, LLC (the Community Development Entities, or CDEs, for the project). The note payable balance as of June 30, 2017, consists of:

CCG Sub-CDE Loan A	$ 4,179,778
CCG Sub-CDE Loan B	1,945,222
USBCDE Loan A	1,003,147
USBCDE Loan B	496,853
	7,625,000
Less: unamortized loan fees	(277,604)
	$ 7,347,396

All four notes bear interest at an annual rate of 1% and mature on December 9, 2045. Starting in February 2023 through the maturity date, payments of interest and principal shall be payable in monthly installments due and payable on the last day of each calendar month. All remaining principal and accrued and unpaid interest shall be due and payable on the maturity date. The loans are secured by essentially all assets of the Organization.

Interest has not been imputed on any of the above loans payable that carry below-market rate interest as they carry certain restrictions. The restrictions require the Organization to use the property as defined by the loan regulatory agreements.

Loan fees consist of debt issuance costs incurred related to the issuance of the New Markets Tax Credit notes payable, and will be amortized over the term of the debt.

Future minimum payments for the four loans are as follows for the years ending June 30:

2018 - 2022	$ -
2023 - 2027	1,491,570
2028 - 2032	1,547,482
2033 - 2037	1,626,789
2038 - 2042	1,710,161
2043 - 2046	1,248,998
	$ 7,625,000

Bridge Loan/ Loans Payable

In May 2017, the Organization entered into a bridge loan agreement with a bank for the purchase of the Hunger Solution Center. The loan amount totaled $18,140,000 and bears interest at rate equal to the one month LIBOR rate plus 175 basis points, or 1.75%. The loan was set to mature on October 15, 2017. The loan was collateralized against the Hunger Solution Center. Subsequent to the year ended June 30, 2017, in August 2017, the bridge loan was settled in full with a cash payment and a $17,650,000 loan the Organization received from the Washington State House Finance Commission ("the Commission.")

The Commission issued special nonprofit revenue bonds to fund the loan made to the Organization. The Organization entered into two loan agreements that require the Organization to make payments in amounts that are sufficient to pay principal and interest on the bonds.

The Series A loan of $4,000,000 is payable in monthly interest-only payments, with annual principal payments commencing August 1, 2018. The loan will bear interest at a variable rate based on monthly LIBOR. The loan matures on August 1, 2022. The loan is secured by contributions receivable – Hunger Solution Center.

The Series B loan of $13,650,000, is payable in monthly principal and interest payments of $66,009, will bear interest at 3.18%, and matures on August 1, 2042. The loan is secured by essentially all assets of the Organization.

The principal maturities of the loans payable based on the terms of the loans discussed above, are as follows for years ending June 30:

2018	$ 303,184
2019	873,088
2020	1,885,127
2021	1,897,554
2022	660,382
Thereafter	12,030,665
	$ 17,650,000

Interest expense for all notes and loans for the years ended June 30, 2017 and 2016, was $184,140 and $63,280, respectively.

As the bridge loan was refinanced subsequent to year-end, the loans payable amounts on the combined statements of financial position reflect the terms of the new loans payable obligations.

Note 5. Purchase Price Option

The Organization and U.S. Bancorp have entered into a put/call option agreement to take place at the end of the seven-year New Market Tax Credit compliance period. Under the agreement, U.S. Bank can exercise a put option to sell its interest in the Twain Investment Fund 69, LLC ("the Investment Fund"), a limited liability company wholly-owned by U.S. Bank, the tax credit investor/lender, for $1,000 to the Organization. The Investment Fund holds a 99.99% ownership of each of the lending entities described in Note 4 (USBCDE Sub-CDE 136, LLC and CCG Sub-CDE 35, LLC). If U.S. Bank does not exercise the put option within six months of the end of the seven-year period (August 2022), the Organization has an additional six months in which it can exercise a call option to purchase the interest of the Investment Fund at an appraised fair market value. Certain amounts and disclosures in these financial statements may be significantly impacted in the event the put/call option is exercised.

Note 6. Leases

In August 2014, the Organization entered into a 20-year contract to lease the Hunger Solution Center, a warehouse with office space in South Seattle. In May 2017, the lease was effectively cancelled upon the purchase of the Hunger Solution Center.

Total lease expense (excluding in-kind rent, up until the date of purchase) was $1,334,240 and $2,169,037 for the years ended June 30, 2017 and 2016, respectively.

Note 7. Pension Plan

The Organization participates in a defined contribution tax sheltered annuity plan ("the Plan") covering substantially all employees with one year of service, who have attained 21 years of age. The Organization matches 50% of participants' contributions to the Plan up to 5% of the individual participant's compensation. The Organization may also elect to make additional discretionary contributions. Employer contributions vest ratably over three years. Total expense under the Plan for the years ended June 30, 2017 and 2016, was $34,381 and $32,579, respectively. This amount is included in payroll taxes and employee benefits expense on the combined statements of functional expenses.

SUPPLEMENTARY SCHEDULES

INDEPENDENT AUDITORS' REPORT ON COMBINING INFORMATION

To the Board of Directors
Food Lifeline and Food Lifeline Foundation
Seattle, Washington

We have audited the combined financial statements of Food Lifeline and Food Lifeline Foundation as of and for the year ended June 30, 2017, and have issued our report thereon dated October 26, 2017, which expressed an unmodified opinion on those combined financial statements, and appears on page 1 and 2. Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The following combining schedules are presented for the purposes of additional analysis of the combined financial statements rather than to present the financial position, results of operations, and cash flows of the individual organizations, and they are not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The combining information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the combining information is fairly stated in all material respects in relation to the combined financial statements as a whole.

Peterson Sullivan L.L.P.

October 26, 2017

FOOD LIFELINE AND FOOD LIFELINE FOUNDATION

COMBINING STATEMENT OF FINANCIAL POSITION

June 30, 2017

ASSETS	Food Lifeline	Food Lifeline Foundation	Eliminations / Adjustments	Total
Current Assets				
Cash and cash equivalents	$ 2,316,904	$ 1,711,292	$ -	$ 4,028,196
Investments	1,155,232			1,155,232
Grants receivable	193,944			193,944
Contributions receivable, current portion	105,000			105,000
Other receivables	146,617			146,617
Prepaid expenses	180,608			180,608
Inventory	4,185,691			4,185,691
Total current assets	8,283,996	1,711,292		9,995,288
Restricted Cash	245,361			245,361
Contributions Receivable, net	332,804			332,804
Contributions Receivable - Hunger Solution Center, net	4,558,410			4,558,410
Note Receivable		5,182,925		5,182,925
Property and Equipment, net	30,187,271			30,187,271
Total assets	$43,607,842	$ 6,894,217	$ -	$50,502,059

LIABILITIES AND NET ASSETS	Food Lifeline	Food Lifeline Foundation	Eliminations / Adjustments	Total
Current Liabilities				
Accounts payable and accrued expenses	$ 392,138	$ -	$ -	$ 392,138
Accrued payroll expenses	357,293			357,293
Current portion of loans payable	303,184			303,184
Total current liabilities	1,052,615			1,052,615
Long-Term Liabilities				
Loans payable, net of current portion	17,836,816			17,836,816
Notes payable, net of loan fees	7,347,396			7,347,396
Lease deposit	49,794			49,794
Total long-term liabilities	25,234,006			25,234,006
Total liabilities	26,286,621			26,286,621
Net Assets	17,321,221	6,894,217		24,215,438
Total liabilities and net assets	$43,607,842	$ 6,894,217	$ -	$50,502,059

FOOD LIFELINE AND FOOD LIFELINE FOUNDATION

COMBINING STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2017

	Food Lifeline	Food Lifeline Foundation	Eliminations / Adjustments	Total
Revenue				
Contributions				
Foundations and corporations	$ 6,752,757	$ 5,590,000	$ (9,590,000)	$ 2,752,757
Individuals	3,015,014			3,015,014
In-kind donations	3,046			3,046
Grants from government agencies	1,943,083			1,943,083
Community events	1,485,482			1,485,482
Program revenue	1,148,278			1,148,278
Investment income, net of fees	79,741			79,741
Interest income - note receivable		74,681		74,681
Rental Income	457,646			457,646
Other income	24,768			24,768
Total revenue, excluding in-kind and Hunger Solution Center - campaign contributions	14,909,815	5,664,681	(9,590,000)	10,984,496
Expenses				
Program services	12,396,188	4,000,194	(9,590,000)	6,806,382
Management and general	1,535,052			1,535,052
Fund-raising	1,939,702			1,939,702
Total expenses, excluding food procurement, processing, and distribution, and Hunger Solution Center	15,870,942	4,000,194	(9,590,000)	10,281,136
Change in Net Assets before Food Revenue and Expense and Hunger Solution Center - Campaign	**(961,127)**	**1,664,487**		**703,360**
Food Revenue and Expense				
In-kind food contributions revenue	72,252,388			72,252,388
Food procurement, processing, and distribution	(74,107,291)			(74,107,291)
Net food expense	(1,854,903)			(1,854,903)
Hunger Solution Center - Campaign				
Contributions	839,384			839,384
Expenses	(139,054)			(139,054)
Net Hunger Solution Center - Campaign	700,330			700,330
Change in Net Assets	**(2,115,700)**	**1,664,487**		**(451,213)**
Net Assets, beginning of year	19,436,921	5,229,730		24,666,651
Net Assets, end of year	$ 17,321,221	$ 6,894,217	$ -	$ 24,215,438

petersonsullivan LLP

Certified Public Accountants
& Advisors

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Food Lifeline and Food Lifeline Foundation
Seattle, Washington

We have audited, in accordance with the auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the combined financial statements of Food Lifeline and Food Lifeline Foundation ("the Organization"), which comprise the combined statement of financial position as of June 30, 2017, and the related combined statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the combined financial statements, and have issued our report thereon dated October 26, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the combined financial statements, we considered the Organization's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Organization's combined financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's combined financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of combined financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Peterson Sullivan LLP

October 26, 2017

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors
Food Lifeline and Food Lifeline Foundation
Seattle, Washington

Report on Compliance for Each Major Federal Program

We have audited Food Lifeline and Food Lifeline Foundation's ("the Organization") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2017. The Organization's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control Over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Peterson Sullivan LLP

October 26, 2017

FOOD LIFELINE AND FOOD LIFELINE FOUNDATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2017

Award Description	Agency/ Pass-through Identifying Award Number	Federal CFDA Number	Federal Expenditures
United States Department of Agriculture			
Passed through the State of Washington			
The Emergency Food Assistance Program ("TEFAP")			
Food Commodities	K1172	10.569*	$ 7,940,831
Administrative Funds	K1172	10.568*	327,293
Total Food Distribution Cluster			8,268,124
Passed through the State of Washington			
Child and Adult Care Food Program	159468	10.558	181,715
Passed through the State of Washington			
Summer Food Service Program for Children			
Total Child Nutrition cluster	159468	10.559	45,817
Total U.S. Department of Agriculture			8,495,656
United States Department of Homeland Security			
Passed through United Way of King County			
Emergency Food and Shelter National Board Program	32-8890-00-006	97.024	153,427
Total Expenditures of Federal Awards			$ 8,649,083

* Denotes a major program

See Notes to Schedule of Expenditures of Federal Awards

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards ("the Schedule") includes the federal grant activity of Food Lifeline and Food Lifeline Foundation ("the Organization") under programs of the federal government for the year ended June 30, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administration Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented, when available.

The Organization has not elected to use the 10 percent de minimus indirect cost rate as allowed under the Uniform Guidance.

Note 3. Food Distribution

Nonmonetary assistance is reported in the Schedule at the fair value of the commodities received and disbursed. At June 30, 2017, the Organization had food commodities in inventory totaling $1,381,584 related to the TEFAP program.

FOOD LIFELINE AND FOOD LIFELINE FOUNDATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2017

Section I – Summary of Audit Results

Financial Statements:

Type of auditors' report issued:	Unmodified

Internal Control Over Financial Reporting:

Material weaknesses identified:	No
Significant deficiencies identified not considered to be material weaknesses:	None reported
Noncompliance material to financial statements noted:	No

Federal Awards:

Material weaknesses identified:	No
Significant deficiencies identified not considered to be material weaknesses:	None reported
Type of auditors' report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported:	No

Identification of major programs:

CFDA Number	Name of Federal Program
10.568 / 10.569	U.S. Department of Agriculture - Food Distribution Cluster

Dollar threshold used to distinguish between Type A and B programs:	$ 750,000
Auditee qualified as low-risk auditee:	Yes

Section II – Financial Statement Findings

No matters were reported.

Section III – Federal Award Findings and Questioned Costs

No matters were reported.