



Food Lifeline and Food Lifeline Foundation

Combined Financial Statements and
Reports and Schedules in Accordance
with *Government Auditing Standards*
and Required by the Uniform Guidance
Years Ended June 30, 2020 and 2019

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Food Lifeline Foundation**

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Food Lifeline and Food Lifeline Foundation

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Tel: 206-382-7777
Fax: 206-382-7700
www.bdo.com

Two Union Square, 601 Union Street
Suite 2300
Seattle, WA 98101

Independent Auditor's 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 (collectively, the "Organization"), which comprise the combined statement of financial position as of June 30, 2020, 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.

Management's Responsibility for the Combined 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 of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. 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 combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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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Two Union Square, 601 Union Street
Suite 2300
Seattle, WA 98101

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, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Supplemental 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 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 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 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 of America. 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 November 19, 2020 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.

Other Matter - Prior-Period Financial Statements

The combined financial statements of the Organization as of and for the year ended June 30, 2019, were audited by Peterson Sullivan LLP, whose partners and professional staff joined BDO USA, LLP as of November 1, 2019, and has subsequently ceased operations. Peterson Sullivan LLP expressed an unmodified opinion on those statements in their report dated September 26, 2019.

BDO USA, LLP

November 19, 2020

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Combined Financial Statements

Food Lifeline and Food Lifeline Foundation

Combined Statements of Financial Position

<i>June 30,</i>	2020	2019
Assets		
Current Assets		
Cash and cash equivalents	\$ 16,742,965	\$ 3,942,634
Investments	1,766,209	1,532,128
Grants receivable	6,929,748	367,361
Contributions receivable, current portion	118,961	25,000
Other receivables	134,824	313,927
Prepaid expenses	251,561	245,472
Inventory	4,610,014	4,136,624
Total Current Assets	30,554,282	10,563,146
Restricted cash	130,611	170,861
Contributions receivable, net	-	22,804
Contributions receivable - Hunger Solution Center, net	763,622	1,118,677
Note receivable	5,182,925	5,182,925
Property and equipment, net	27,355,817	28,254,800
Total Assets	\$ 63,987,257	\$ 45,313,213
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	\$ 2,521,339	\$ 259,378
Accrued payroll expenses	670,504	425,950
Current portion of loans payable	397,554	385,127
Total Current Liabilities	3,589,397	1,070,455
Long-Term Liabilities		
Loans payable, net of loan fees and current portion	12,052,846	12,444,220
Notes payable, net of loan fees	7,376,617	7,366,877
Paycheck protection program loan, net of current portion	1,189,305	-
Lease deposit	49,794	49,794
Total Long-Term Liabilities	20,668,562	19,860,891
Total Liabilities	24,257,959	20,931,346
Net Assets		
Without donor restrictions	39,700,115	24,334,063
With donor restrictions	29,183	47,804
Total Net Assets	39,729,298	24,381,867
Total Liabilities and Net Assets	\$ 63,987,257	\$ 45,313,213

See accompanying notes to combined financial statements.

**Food Lifeline and
Food Lifeline Foundation**
Combined Statements of Activities

Year Ended June 30,	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue						
Contributions						
Foundations and corporations	\$ 8,142,858	\$ 6,379	\$ 8,149,237	\$ 3,193,317	\$ -	\$ 3,193,317
Individuals	13,006,901	-	13,006,901	4,145,099	-	4,145,099
In-kind donations	604,974	-	604,974	18,014	-	18,014
Grants from government agencies	11,021,264	-	11,021,264	2,163,950	-	2,163,950
Community events	1,216,745	-	1,216,745	2,351,952	-	2,351,952
Program revenue	1,477,908	-	1,477,908	1,478,208	-	1,478,208
Rental income	783,205	-	783,205	736,420	-	736,420
Investment income, net of fees	44,330	-	44,330	118,323	-	118,323
Interest income - note receivable	62,234	-	62,234	74,681	-	74,681
Loss on disposal of property and equipment	(22,479)	-	(22,479)	-	-	-
Net assets released from restrictions	25,000	(25,000)	-	202,145	(202,145)	-
Total Revenue, excluding in-kind food	36,362,940	(18,621)	36,344,319	14,482,109	(202,145)	14,279,964
Expenses						
Program services	7,295,583	-	7,295,583	7,085,738	-	7,085,738
Management and general	2,238,788	-	2,238,788	1,908,557	-	1,908,557
Fundraising	2,451,893	-	2,451,893	2,506,473	-	2,506,473
Total Expenses, excluding food procurement, processing, and distribution	11,986,264	-	11,986,264	11,500,768	-	11,500,768
Change in net assets before food revenue and expense	24,376,676	(18,621)	24,358,055	2,981,341	(202,145)	2,779,196
Food Revenue and Expense						
In-kind food contributions revenue	113,459,631	-	113,459,631	98,490,766	-	98,490,766
Food procurement, processing, and distribution	(122,470,255)	-	(122,470,255)	(100,474,715)	-	(100,474,715)
Net Food Expense	(9,010,624)	-	(9,010,624)	(1,983,949)	-	(1,983,949)
Change in Net Assets	15,366,052	(18,621)	15,347,431	997,392	(202,145)	795,247
Net Assets, beginning of year	24,334,063	47,804	24,381,867	23,336,671	249,949	23,586,620
Net Assets, end of year	\$ 39,700,115	\$ 29,183	\$ 39,729,298	\$ 24,334,063	\$ 47,804	\$ 24,381,867

See accompanying notes to combined financial statements.

Food Lifeline and Food Lifeline Foundation

Combined Statements of Functional Expenses

Year Ended June 30,	2020				2019			
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Salaries	\$ 3,729,225	\$ 946,221	\$ 890,561	\$ 5,566,007	\$ 3,611,189	\$ 916,272	\$ 862,374	\$ 5,389,835
Payroll taxes and employee benefits	911,215	202,709	212,956	1,326,880	964,844	185,119	211,987	1,361,950
Total Salaries and Related Expenses	4,640,440	1,148,930	1,103,517	6,892,887	4,576,033	1,101,391	1,074,361	6,751,785
Depreciation	847,647	166,750	194,542	1,208,939	896,876	131,893	184,651	1,213,420
Professional fees	156,697	199,253	523,677	879,627	142,660	149,850	634,764	927,274
Occupancy	408,823	185,988	11,170	605,981	401,748	161,920	11,236	574,904
Interest	460,022	39,318	45,871	545,211	519,924	40,118	56,165	616,207
Temporary labor	184,480	64,383	135,486	384,349	18,789	7,318	7,014	33,121
Supplies and postage	187,816	86,103	98,894	372,813	91,626	73,882	124,694	290,202
Advertising and printing	21,561	7,479	125,444	154,484	550	36,596	164,524	201,670
Insurance	107,750	9,209	10,744	127,703	105,356	8,129	11,381	124,866
Repairs and maintenance	118,124	-	-	118,124	131,237	-	-	131,237
Conferences and travel	39,963	50,159	9,689	99,811	77,890	66,495	47,402	191,787
TEFAP Agency expense	97,104	-	-	97,104	92,333	-	-	92,333
Telephone	16,667	5,017	3,167	24,851	20,489	2,038	2,854	25,381
Other	8,489	276,199	189,692	474,380	10,227	128,927	187,427	326,581
Total Expenses, excluding food procurement, processing, and distribution	7,295,583	2,238,788	2,451,893	11,986,264	7,085,738	1,908,557	2,506,473	11,500,768
Food procurement, processing, and distribution	122,470,255	-	-	122,470,255	100,474,715	-	-	100,474,715
Total Expenses	\$129,765,838	\$ 2,238,788	\$ 2,451,893	\$134,456,519	\$ 107,560,453	\$ 1,908,557	\$ 2,506,473	\$ 111,975,483

See accompanying notes to combined financial statements.

Food Lifeline and Food Lifeline Foundation

Combined Statements of Cash Flows

Year Ended June 30,	2020	2019
Cash Flows from Operating Activities		
Change in net assets	\$ 15,347,431	\$ 795,247
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	1,208,939	1,213,420
Loss on disposal of property and equipment	22,479	
Amortization of debt issuance costs	15,920	53,649
Realized and unrealized losses (gains) on investments	14,847	(45,153)
Changes in operating assets and liabilities		
Grants receivable	(6,562,387)	(98,211)
Contributions receivable	(71,157)	50,000
Food inventory	(473,390)	(1,200,807)
Accounts payable and accrued expenses	2,261,961	(308,375)
Accrued payroll expenses	244,554	1,253
Prepaid expenses and other current receivables	173,014	(28,661)
Net Cash Flows from Operating Activities	12,182,211	432,362
Cash Flows for Investing Activities		
Proceeds from sales on investments	815,859	196,584
Purchase of investments	(1,064,787)	(342,603)
Purchase of property and equipment	(332,435)	(48,411)
Net Cash Flows for Investing Activities	(581,363)	(194,430)
Cash Flows from (for) Financing Activities		
Contributions received for purchases of long-term assets	355,055	1,407,393
Proceeds from pacheck protection program loan	1,189,305	-
Payments on loans payable	(385,127)	(1,873,088)
Net Cash Flows from (for) Financing Activities	1,159,233	(465,695)
Net Change in Cash and Cash Equivalents	12,760,081	(227,763)
Cash and Cash Equivalents, beginning of year	4,113,495	4,341,258
Cash and Cash Equivalents, end of year	\$ 16,873,576	\$ 4,113,495
Supplemental Information		
Cash paid for interest	\$ 590,061	\$ 562,558

See accompanying notes to combined financial statements.

Food Lifeline and Food Lifeline Foundation

Notes to Combined Financial Statements

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 of America.

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 2020 and 2019 was procured as follows:

	2020	2019
Donated by local food industry	68%	84%
Donated by national food industry (through Feeding America)	-	1
Donated by the U.S. Department of Agriculture	19	11
Purchased	13	4
	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 Washington State Department of Commerce, King County Planning and Community Development Division, the Emergency Food and Shelter Program (“EFSP”), the Seattle Human Services Department, and through other federal, state, and local programs. Government cash awards consisted of the following:

	2020	2019
City and county governmental agencies	\$ 1,545,464	\$ 1,012,941
EFSP	-	154,174
Federal and state governmental programs		
TEFAP - The Emergency Food Assistance Program	804,565	581,602
EFAP - Emergency Food Assistance Program	294,204	301,122
TMP - The Trade Mitigation Program	473,968	114,079
CFAP - COVID Food Assistance Program	7,903,063	-
CACFP - Child and Adult Care Feeding Program	-	32
	\$ 11,021,264	\$ 2,163,950

Food Lifeline and Food Lifeline Foundation

Notes to Combined Financial Statements

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 of America 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 two classes of net assets: without donor restrictions and with donor restrictions. Contributions that are received are recorded depending on the existence and/or nature of any donor restrictions.

Net Assets with Donor Restrictions

Net assets with donor restrictions consist of unexpended contributions restricted for particular purposes or time periods and contributions to be received in future years. If the Organization receives a restricted contribution and it meets the restrictions in the same year the contribution is received, then it records the contribution as revenue without donor restrictions. Net assets with donor restrictions are to be used for the following purposes at June 30:

	2020	2019
To be used in future years	\$ 22,804	\$ 47,804
Food health program	6,379	-
	\$ 29,183	\$ 47,804

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.

Food Lifeline and Food Lifeline Foundation

Notes to Combined Financial Statements

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.

The Organization operates under the provision of a reserve agreement, which restricts the use 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 cash account as required by the lending agreement.

Cash and cash equivalents as included on the combined statements of cash flows consist of the following line items from the combined balance sheets at June 30:

	2020	2019
Cash and cash equivalents	\$ 16,742,965	\$ 3,942,634
Restricted cash	130,611	170,861
	\$ 16,873,576	\$ 4,113,495

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:

	2020	2019
Fixed-Income Mutual Funds		
Intermediate-term bond funds	\$ 174,554	\$ 425,412
High-yield bond funds	105,491	93,695
Global bond funds	496,876	145,879
Equity Mutual Funds		
Equity income funds	581,938	493,682
Global equity funds	243,881	183,606
Real estate investment trusts	75,874	69,690
Corporate Bonds	52,717	100,909
Publicly Traded Common Stocks	34,878	19,255
	\$ 1,766,209	\$ 1,532,128

Food Lifeline and Food Lifeline Foundation

Notes to Combined Financial Statements

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

	2020	2019
Interest and dividends	\$ 73,788	\$ 85,333
Realized and unrealized gains (loss)	(14,847)	45,153
Investment fees	(14,611)	(12,163)
	\$ 44,330	\$ 118,323

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:

	2020	2019
Amounts due in		
Less than one year	\$ 118,961	\$ 25,000
One to five years	-	25,000
Total Gross Contributions Receivable	118,961	50,000
Less: Unamortized discount (2% - 3%)	-	(2,196)
	\$ 118,961	\$ 47,804

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

	2020	2019
Current contributions receivable	\$ 118,961	\$ 25,000
Long-term contributions receivable	-	22,804
	\$ 118,961	\$ 47,804

Food Lifeline and Food Lifeline Foundation

Notes to Combined Financial Statements

In prior years, the Organization held a capital campaign to raise funds for the purchase of the Hunger Solution Center. Contributions receivable - Hunger Solution Center were for the capital campaign and consist of the following at June 30:

	2020	2019
Amounts due in		
Less than one year	\$ 376,826	\$ 421,643
One to five years	428,494	771,387
Total Gross Contributions Receivable	805,320	1,193,030
Less: Unamortized discount (2% - 4%)	(41,698)	(74,353)
	\$ 763,622	\$ 1,118,677

Of the total contributions receivable related to the Hunger Solution Center at June 30, 2020 and 2019, 84% and 43% were due from four and three entities, respectively.

Grants Revenue/Receivable

Grants consist of grants and contracts administered by various federal, state, and local governmental agencies awarded to the Organization and are considered contributions. Revenue is recognized when the grant is received unless the award is conditional and contains a barrier to collecting grant funds. Barriers for grants awarded to the Organization primarily consist of activity barriers, and/or barriers for performance based on output of units. Grants receivable consist of grant awards where the barrier has been met and amounts are billable under the contract. At June 30, 2020, there was approximately \$5,923,000 of grants awarded where the barrier had not been met. It is uncertain if the Organization will be able to use these funds before the grant award terms expire.

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, 2020 and 2019, no such adjustments were made. Of total grants receivable at June 30, 2020 and 2019, essentially all 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.

Food Lifeline and Food Lifeline Foundation

Notes to Combined Financial Statements

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

	2020	2019
USDA commodities	\$ 2,383,733	\$ 2,153,541
Donated food	1,921,206	1,767,826
Purchased food	305,075	215,257
	\$ 4,610,014	\$ 4,136,624

Property and Equipment

Property and equipment are 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 consist of the following at June 30:

	2020	2019
Land	\$ 4,665,164	\$ 4,665,164
Building and improvements	24,020,653	24,020,653
Warehouse refrigeration	1,375,832	1,375,832
Office furniture and equipment	1,349,309	1,349,309
Vehicles	1,289,500	1,062,771
Warehouse equipment	990,749	919,627
	33,691,207	33,393,356
Less: Accumulated depreciation	(6,335,390)	(5,138,556)
	\$ 27,355,817	\$ 28,254,800

In-Kind Donations

In-kind services recognized in these combined financial statements primarily include legal fees and supplies. These amounts are included in in-kind donations and related expenses and are included in their natural expense account classifications. These were valued at \$2,346 and \$18,014 for the years ended June 30, 2020 and 2019, respectively.

Additionally, the Organization received donated auction items, decorations, and supplies for special events that were valued at \$13,646 and \$70,544 for the years ended June 30, 2020 and 2019, respectively. This revenue is included with community events revenue on the combined statements of activities.

Food Lifeline and Food Lifeline Foundation

Notes to Combined Financial Statements

The Organization records donated food for distribution at the wholesale food prices as noted above. Donated food amounted to \$113,459,631 and \$98,490,766 for the years ended June 30, 2020 and 2019, respectively.

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 costs and delivery charges for housing and delivering food. The Organization's largest program is called Order Up!, where 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 statements of activities and functional expenses. Certain expenses are attributed to more than one program or supporting function. Accordingly, certain costs have been allocated among the programs and supporting services benefitted. These expenses are allocated as follows:

<u>Expense</u>	<u>Method</u>
Salaries	Estimates of time and effort
Payroll taxes and employee	Estimates of time and effort
Occupancy - utilities	Square foot
Professional fees	Estimates of time and effort
Depreciation	Square foot
Insurance	Square foot
Interest	Square foot
Telephone	Estimates of time and effort

Advertising and printing, supplies and postage, repair and maintenance, conferences and travel, grants, and all other expenses, are allocated to a functional expense category on the basis of individual invoices.

Income Taxes

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

Food Lifeline and Food Lifeline Foundation

Notes to Combined Financial Statements

Recent Accounting Pronouncement Adopted

During the year ended June 30, 2020, the Organization adopted the provisions of Accounting Standards Update (“ASU”) No. 2018-08, Not-for-Profit Entities (“Topic 958”) - clarifying the scope and accounting guidance for contributions received and contributions made. The update assists entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. As result of adopting the ASU, there was no material change to the Organization’s combined financial statements.

Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, Revenue from Contracts with Customers (“Topic 606”). The pronouncement was issued to clarify the principles for recognizing revenue, and the core principle of the guidance is that an entity shall recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The following five steps are applied to achieve that core principle:

- Step 1: Identify the contract with the customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when the organization satisfies a performance obligation

In May 2020, the FASB voted to approve the proposed deferral of the effective date for Topic 606 for one year for all privately held entities and most not for profit entities that have not yet issued financial statements as of June 30, 2020. As such, the Organization is electing to defer implementation of Topic 606, and will be adopting as of July 1, 2020, for the year ending June 30, 2021.

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-02, Leases (“Topic 842”). The new standard in this update requires that any entity that is a lessee record, for all leases with a term exceeding 12 months, an asset representing its right to use the underlying asset for the lease term and a liability to make lease payments. The update is effective for the Organization for the year ending June 30, 2022, with early adoption permitted. The Organization is currently reviewing the provisions of this update to determine if there will be any material effect on its financial statements.

Subsequent Events

The Organization has evaluated subsequent events through the date these combined financial statements were available to be issued, which was November 19, 2020.

Food Lifeline and Food Lifeline Foundation

Notes to Combined Financial Statements

2. Liquidity and Availability of Resources

The Organization maintains liquid financial assets sufficient to cover five months of general operating expenses. Financial assets in excess of monthly cash requirements are held in money market funds and other short-term investments as well as invested conservatively in a diversified portfolio of financial assets (see Note 1 for investment portfolio detail). The investment portfolio is professionally managed to meet Food Lifeline’s Board approved criteria for allocation across asset classes and risk tolerance.

The following table reflects the Organization’s financial assets as of June 30, 2020 and 2019, reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date because of contractual restrictions. Amounts not available include cash restricted to settle certain debt related obligations, and long-term notes and contribution receivables not expected to be collected within one year.

	2020	2019
Cash and cash equivalents	\$ 16,873,576	\$ 4,113,495
Investments	1,766,209	1,532,128
Grants receivable	6,929,748	367,361
Contributions receivable	882,583	1,166,481
Other receivables	134,824	313,927
Note receivable	5,182,925	5,182,925
Total Financial Assets	31,769,865	12,676,317
Less: Restricted cash	(130,611)	(170,861)
Less: Long-term contributions receivable	(763,622)	(1,141,481)
Less: Long-term note receivable	(5,182,925)	(5,182,925)
Financial assets available to meet general expenditures within one year	\$ 25,692,707	\$ 6,181,050

3. Novel Coronavirus

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the “COVID-19 outbreak”) and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally. Through June 30, 2020, the COVID-19 outbreak had a material impact on the Organization’s operations. The Organization received increased funding from government agencies, primarily the CFAP program as detailed above.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the Organization’s financial condition, liquidity, and future results of operations. Management is actively monitoring the global situation on its financial condition, liquidity, operations, suppliers, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the

Food Lifeline and Food Lifeline Foundation

Notes to Combined Financial Statements

Organization is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for fiscal year 2021.

On March 27, 2020, the “Coronavirus Aid, Relief, and Economic Security (“CARES”) Act” was signed into law. The CARES Act, among other things, includes provisions relating to refundable payroll tax credits, deferment of employer side social security payments, net operating loss carryback periods, alternative minimum tax credit refunds, modifications to the net interest deduction limitations, increased limitations on qualified charitable contributions, and technical corrections to tax depreciation methods for qualified improvement property.

It also appropriated funds for the SBA Paycheck Protection Program loans (“PPP Loan”) that are forgivable in certain situations to promote continued employment, as well as Economic Injury Disaster Loans to provide liquidity to small businesses harmed by COVID-19. In May 2020, the Organization received a PPP Loan in the amount of \$1,189,305. See Note 5 for further details.

4. Note Receivable

As part of the New Markets 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, 2020, 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 5). 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.

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

2021 - 2023	\$	-
2024		84,054
2025		203,799
2026 - 2030		1,064,204
2031 - 2035		1,143,654
2036 - 2040		1,229,037
2041 - 2045		1,320,793
2046		137,384
	\$	5,182,925

5. Debt

Notes Payable

In prior years, 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, 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).

Food Lifeline and Food Lifeline Foundation

Notes to Combined Financial Statements

Notes payable consist of the following as of June 30:

	2020	2019
CCG Sub-CDE Loan A	\$ 1,003,147	\$ 1,003,147
CCG Sub-CDE Loan B	496,853	496,853
USBCDE Loan A	4,179,778	4,179,778
USBCDE Loan B	1,945,222	1,945,222
	7,625,000	7,625,000
Less: Unamortized loan fees	(248,383)	(258,123)
	\$ 7,376,617	\$ 7,366,877

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 interest rates, 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 are being amortized over the term of the debt.

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

2021 - 2022	\$	-
2023		308,081
2024		291,451
2025		294,379
2026 - 2030		1,516,853
2031 - 2035		1,594,590
2036 - 2040		1,676,311
2041 - 2045		1,762,221
2046		181,115
	\$	7,625,000

Included in the fiscal year's 2023 payment schedule above is a mandatory payment obligation of \$187,500 due under the CCG Sub-CDE Loan B terms in 2023. That payment is due 84 months from the original closing date.

Food Lifeline and Food Lifeline Foundation

Notes to Combined Financial Statements

Loans Payable

The Washington State House Finance Commission issued special nonprofit revenue bonds to fund a 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 was paid in full as of June 30, 2019.

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

The outstanding loan payable has various covenants including, among others, a liquidity ratio and a debt coverage ratio. The Organization was in compliance with these covenants as of June 30, 2020.

The loan payable is summarized as follows at June 30:

	2020	2019
Series B Loan	\$ 12,587,388	\$ 12,972,515
Less: Unamortized loan fees	(136,988)	(143,168)
	12,450,400	12,829,347
Less: Current portion	397,554	385,127
	\$ 12,052,846	\$ 12,444,220

The principal maturities of the loan payable based on the terms of the loan discussed above is as follows for the years ending June 30:

2021	\$ 397,554
2022	410,382
2023	423,624
2024	437,293
2025	451,404
Thereafter	10,467,131
	\$ 12,587,388

Paycheck Protection Program Loan

In May 2020, the Organization received a loan through the SBA Paycheck Protection Program (“PPP Loan”) in the amount of \$1,189,305. The loan bears interest at 1% per annum, is due in May 2022, and can be forgiven based on expenditures relating to payroll, rent, and utilities, twenty-four weeks from the when the loan was funded. Based on the terms of the PPP Loan the principal maturities are due in the year ending June 30, 2022.

Food Lifeline and Food Lifeline Foundation

Notes to Combined Financial Statements

The PPP Loan is forgivable in certain situations to promote continued employment, as well as to provide liquidity to small businesses harmed by COVID-19. The application for these funds required the Organization to, in good faith, certify that the current economic uncertainty made the loan request necessary to support the ongoing operations of the Organization. This certification further required the Organization to take into account its current business activity and its ability to access other sources of liquidity sufficient to support ongoing operations in a manner that is not significantly detrimental to its operations. Based on preliminary estimates, the Organization believes it will be able to use all of the PPP Loan funds for forgivable purposes based on the current allowable rules. The Organization's plan is to maximize this amount and pay back any amount it was unable to use by the maturity date.

6. Purchase Price Option

The Organization and U.S. Bancorp ("U.S. Bank") have entered into a put/call option agreement to take place at the end of the seven-year New Markets Tax Credit compliance period. Under the agreement, U.S. Bank can exercise a put option to sell its interest in Twain, a limited liability company wholly owned by U.S. Bank, the tax credit investor/lender, for \$1,000 to the Organization. Twain 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 Twain at an appraised fair market value. In the event the put/call option is exercised, certain amounts and disclosures in these financial statements may be significantly impacted, including the potential to recognize a significant gain by the Organization.

7. Contingent Contributions

The Organization received two contributions from government agencies contingent upon the Organization spending the money for the acquisition and/or remodel of new warehouse and office space. The first was received during the year ended in June 30, 2014, in the amount of \$3,050,000, and the second was received in the year ended June 30, 2018, in the amount of \$1,212,500. Both prior year contributions are secured by a deed of trust on the new property for a period of 10 years following the final payment of funds received. In the event that the Hunger Solution Center is sold or is not operating for the intended purpose prior to the end of the 10 year period, Food Lifeline will be required to repay the proceeds plus interest at a rate equal to the Washington State General Obligation bonds issued most closely to the effective date of the legislation in which the facility was authorized. Management of Food Lifeline determined that the likelihood of not achieving the contingencies was remote and recognized both as contribution revenue in fiscal years 2014 and 2018. Since all contribution revenue was recognized in prior years there is no change in recognition of these grants from the adoption of Topic 958 during the year ended June 30, 2020.

8. Contingency

On July 16, 2020, the Organization was notified by its third-party vendor that manages its donor information that a ransomware attack occurred in May 2020 on the third-party vendor's back up system in which certain data was exfiltrated. The third-party vendor took immediate and decisive action to address the incident. This incident has had no impact on the Organization's operations or the data on the Organization's system. As of the date of this report, the Organization cannot

Food Lifeline and Food Lifeline Foundation

Notes to Combined Financial Statements

estimate the financial impact this event will have on their financial position, if any, and as a result, the Organization has not accrued any liability.

9. Pension Plan

The Organization participates in a defined contribution tax sheltered annuity plan (the “Plan”) covering substantially all employees with one year of service and who have attained 21 years of age. The Organization matches 50% of participants’ contributions to the Plan up to 7% of the individual participant’s compensation. The Organization may also elect to make additional discretionary contributions. Employees become vested in employer contributions ratably over three years. Total expense under the Plan for the years ended June 30, 2020 and 2019, was \$79,718 and \$68,543, respectively. This amount is included in payroll taxes and employee benefits expense on the combined statements of functional expenses.

Supplemental Schedules



Tel: 206-382-7777
Fax: 206-382-7700
www.bdo.com

Two Union Square, 601 Union Street
Suite 2300
Seattle, WA 98101

Independent Auditor's 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, 2020, and have issued our report thereon dated November 19, 2020, which expressed an unmodified opinion on those combined financial statements, and appears on pages 3 and 4. 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 our 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 of America. In our opinion, the combining information is fairly stated in all material respects in relation to the combined financial statements as a whole.

BDO USA, LLP

November 19, 2020

Food Lifeline and Food Lifeline Foundation

Combining Schedule of Financial Position

<i>June 30, 2020</i>	Food Lifeline	Food Lifeline Foundation	Eliminations/ Adjustments	Total
Assets				
Current Assets				
Cash and cash equivalents	\$ 14,820,190	\$ 1,922,775	\$ -	\$ 16,742,965
Investments	1,766,209	-	-	1,766,209
Grants receivable	6,929,748	-	-	6,929,748
Contributions receivable, current portion, net	118,961	-	-	118,961
Other receivables	134,824	-	-	134,824
Prepaid expenses	251,561	-	-	251,561
Inventory	4,610,014	-	-	4,610,014
Total Current Assets	28,631,507	1,922,775	-	30,554,282
Restricted cash	130,611	-	-	130,611
Contributions receivable				
Hunger Solution Center, net	763,622	-	-	763,622
Note receivable	-	5,182,925	-	5,182,925
Property and equipment, net	27,355,817	-	-	27,355,817
Total Assets	\$ 56,881,557	\$ 7,105,700	\$ -	\$ 63,987,257
Liabilities and Net Assets				
Current Liabilities				
Accounts payable and accrued expenses	\$ 2,521,339	\$ -	\$ -	\$ 2,521,339
Accrued payroll expenses	670,504	-	-	670,504
Current portion of loans payable	397,554	-	-	397,554
Total Current Liabilities	3,589,397	-	-	3,589,397
Long-Term Liabilities				
Loans payable, net of loan fees and current portion	12,052,846	-	-	12,052,846
Notes payable, net of loan fees	7,376,617	-	-	7,376,617
Paycheck protection program loan, net of current portion	1,189,305	-	-	1,189,305
Lease deposit	49,794	-	-	49,794
Total Long-Term Liabilities	20,668,562	-	-	20,668,562
Total Liabilities	24,257,959	-	-	24,257,959
Net Assets	32,623,598	7,105,700	-	39,729,298
Total Liabilities and Net Assets	\$ 56,881,557	\$ 7,105,700	\$ -	\$ 63,987,257

**Food Lifeline and
Food Lifeline Foundation**
Combining Schedule of Activities

<i>Year Ended June 30, 2020</i>	Food Lifeline	Food Lifeline Foundation	Eliminations/ Adjustments	Total
Revenue				
Contributions				
Foundations and corporations	\$ 8,149,237	\$ -	\$ -	\$ 8,149,237
Individuals	13,006,901	-	-	13,006,901
In-kind donations	604,974	-	-	604,974
Grants from government agencies	11,021,264	-	-	11,021,264
Community events	1,216,745	-	-	1,216,745
Program revenue	1,477,908	-	-	1,477,908
Investment income, net of fees	44,330	-	-	44,330
Interest income - note receivable	-	62,234	-	62,234
Rental income	783,205	-	-	783,205
Loss on disposal of property and equipment	(22,479)	-	-	(22,479)
Total Revenue, excluding in-kind food	36,282,085	62,234	-	36,344,319
Expenses				
Program services	7,295,583	-	-	7,295,583
Management and general	2,238,788	-	-	2,238,788
Fundraising	2,451,893	-	-	2,451,893
Total Expenses, excluding food procurement, processing, and distribution	11,986,264	-	-	11,986,264
Change in net assets before food revenue and expense	24,295,821	62,234	-	24,358,055
Food Revenue and Expense				
In-kind food contributions revenue	113,459,631	-	-	113,459,631
Food procurement, processing, and distribution	(122,470,255)	-	-	(122,470,255)
Net Food Expense	(9,010,624)	-	-	(9,010,624)
Change in Net Assets	15,285,197	62,234	-	15,347,431
Net Assets, beginning of year	17,338,401	7,043,466	-	24,381,867
Net Assets, end of year	\$ 32,623,598	\$ 7,105,700	\$ -	\$ 39,729,298

**Supplemental Reports and
Schedules in Accordance with
Government Auditing Standards and
Required by the Uniform Guidance**



Tel: 206-382-7777
Fax: 206-382-7700
www.bdo.com

Two Union Square, 601 Union Street
Suite 2300
Seattle, WA 98101

Independent Auditor’s 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 of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States of America, the financial statements of Food Lifeline and Food Lifeline Foundation (collectively, the “Organization”), which comprise the combined statement of financial position as of June 30, 2020, 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 November 19, 2020.

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 entity’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.



Tel: 206-382-7777
Fax: 206-382-7700
www.bdo.com

Two Union Square, 601 Union Street
Suite 2300
Seattle, WA 98101

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's 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 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2020-001.

Organization's Response to Findings

The Organization's response to the findings identified in our audit is described in the accompanying corrective action plan. The Organization's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

BDO USA, LLP

November 19, 2020



Tel: 206-382-7777
Fax: 206-382-7700
www.bdo.com

Two Union Square, 601 Union Street
Suite 2300
Seattle, WA 98101

Independent Auditor’s Report on Compliance for Each Major Program And Report 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 (collectively, 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, 2020. The Organization’s major federal programs are identified in the summary of auditor’s 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 of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America; 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, 2020.

Other Matter

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2020-001. Our opinion on each major federal program is not modified with respect to this matter.

The Organization's response to the noncompliance finding identified in our audit is described in the accompanying corrective action plan. The Organization's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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



Tel: 206-382-7777
Fax: 206-382-7700
www.bdo.com

Two Union Square, 601 Union Street
Suite 2300
Seattle, WA 98101

and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify a certain deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2020-001, that we consider to be a significant deficiency.

The Organization's response to the internal control over compliance findings identified in our audit is described in the accompanying corrective action plan. The Organization's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

November 19, 2020

**Food Lifeline and
Food Lifeline Foundation**

**Schedule of Expenditures of Federal Awards
Year Ended June 30, 2020**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Award Number	Federal CFDA Number	Federal Expenditures
Department of Agriculture			
<i>Food Distribution Cluster</i>			
Passed through the State of Washington			
The Emergency Food Assistance Program ("TEFAP")			
Food commodities	K2172	10.569	\$ 7,432,956
COVID-19 Administrative Funds	K2172	10.568	206,616
Administrative Funds	K2172	10.568	597,949
Total administrative funds			804,565
<i>Total Food Distribution Cluster</i>			8,237,521
Passed through the State of Washington			
The Trade Mitigation Program Eligible Recipient			
Agency Operational Funds ("TMP")			
Food Commodities	K2172	10.178	11,858,094
Administrative Funds	K2172	10.178	473,968
Total Trade Mitigation Program Eligible Recipient Agency Operational Funds ("TMP") Program			- 12,332,062
Total Department of Agriculture			20,569,583
Total Federal Expenditures			\$ 20,569,583

The accompanying notes are an integral part of this schedule.

Food Lifeline and Food Lifeline Foundation

Notes to Schedule of Expenditures of Federal Awards

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 (collectively, the "Organization") under programs of the federal government for the year ended June 30, 2020. The information in the Schedule is presented in accordance with the requirements of *Title 2 U.S. Code of Federal Regulations 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.

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.

3. Food Distribution

Nonmonetary assistance is reported in the Schedule at the fair value of the commodities received and disbursed. At June 30, 2020, the Organization had food commodities in inventory relating the following programs:

TEFAP	\$	992,231
TMP		1,391,502
	\$	2,383,733

Food Lifeline and Food Lifeline Foundation

Schedule of Findings and Questioned Costs

Section I - Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(ies) identified? _____ yes X none reported
- Noncompliance material to financial statements noted? _____ yes X no

Federal Awards:

Internal control over major federal program:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(ies) identified? X yes _____ no

Type of auditor's report issued on compliance for major programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

_____ yes X no

Identification of Major Programs:

Program Title

CFDA Number

TEFAP Program

10.568 / 10.569

Dollar threshold used to distinguish between Type A and B programs:

\$750,000

Auditee qualified as low-risk auditee:

 X yes _____ no

Section II - Financial Statement Findings

No findings were identified that were required to be reported.

Food Lifeline and Food Lifeline Foundation

Schedule of Findings and Questioned Costs

Section III - Major Federal Award Programs Findings and Questioned Costs

2020-001: Schedule of Expenditures of Federal Awards

Federal Agencies: Department of Agriculture
CFDA Number: 10.569/10.568
Program: TEFAP

Criteria - The Uniform Guidance (2 CFR §200.510) states that the auditee must prepare a Schedule of Expenditures of Federal Awards (the “Schedule”) for the period covered by the financial statements.

Condition - The Organization does not have an effective process in place to ensure that all items are properly reflected on the Schedule, specifically related to reporting food commodities under different government programs.

Context - During our audit, we discovered a misclassification of reported amounts of food commodities presented under the TEFAP and TMP programs.

Cause - The Organization marked food as distributed and then recorded it as revenue again under the program based on periodic inventory counts. As a result of inquiry during the audit, the Organization was able to reconcile and adjust these transactions to expense, and commodity amounts adjusted. Note that total government food commodities were materially correct.

Effect - The preliminary Schedule of Expenditures of Federal Awards received for audit was incorrectly stated and an adjustment of \$1,677,541 was recorded to reduce the amount of food commodities reported under the TEFAP program.

Questioned Costs: N/A

Recommendation: We recommend that management establish a procedure to reconcile with the State of Washington the amount of food commodities being received under each program to the Organization’s records. This procedure should be performed independent of the audit process. This will ensure food commodity amounts are properly reported under their respective programs.

Views of Responsible Officials and Planned Corrective Action: Management concurs with the finding. See the attached unaudited corrective action plan, which explains additional review and reconciliation procedures to be performed.



CORRECTIVE ACTION PLAN
For the Year Ended June 30, 2020

Finding 2020-001

Food Distribution Cluster - CFDA No. 10.568, 10.569

Name of Contact Person: John Hribernick, Director of Finance and Accounting |

Email: johnh@foodlifeline.org | 206-545-6600

Corrective Action:

As noted in the finding, the Organization acknowledges the draft Schedule contained a misclassification between revenue and expense under the program. Due to the pandemic and large volumes of transactions during the latter part of the fiscal year combined with BDO's inability to delay the audit procedures, the Organization was required to meet the audit deadlines for the Schedule prior to the completion of the financial audit procedures and the Organization's full internal review of the Schedule.

The corrective action plan by the Organization is as follows:

1. Ensure all financial audit work and schedules are substantially complete prior to providing the Schedule and supporting documentation.
2. Prepare inventory rollforward schedules, which will include reconciling the Organization's records of food commodities received to those of the Washington State Department of Agriculture.
3. Incorporate analytical procedures into the Organization's inventory rollforward schedules, which will include a reasonableness test of amounts presented.