



Food Lifeline and Food Lifeline Foundation

Combined Financial Statements
Years Ended June 30, 2022 and 2021
Reports and Schedules in Accordance with
Government Auditing Standards and
Required by the Uniform Guidance
Year Ended June 30, 2022

The report accompanying these financial statements was issued by

BDO USA, LLP, a Delaware limited liability partnership and the U.S. member of BDO
International Limited, a UK company limited by guarantee.



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Food Lifeline Foundation**

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Food Lifeline and Food Lifeline Foundation

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Independent Auditor's Report

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

Report on the Audit of the Combined Financial Statements

Opinion

We have audited the combined financial statements of Food Lifeline and Food Lifeline Foundation (collectively, the Organization), which comprise the combined statements of financial position as of June 30, 2022 and 2021, 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.

In our opinion, the accompanying combined financial statements present fairly, in all material respects, the combined financial position of the Organization as of June 30, 2022 and 2021, 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 of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Combined Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Combined Financial Statements

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

In preparing the combined financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the combined financial statements are issued or available to be issued.



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Auditor's Responsibilities for the Audit of the Combined Financial Statements

Our objectives are to obtain reasonable assurance about whether the combined financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the combined financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the combined financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the combined financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the combined financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The Combining Statement of Financial Position and the Combining Statement of Activities are presented for purposes of additional analysis and are not a required part of the combined financial statements. 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 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. Such information has been subjected to the auditing procedures applied in



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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 GAAS. 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 March 30, 2023 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's 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.

BDO USA, LLP

March 30, 2023

Combined Financial Statements

Food Lifeline and Food Lifeline Foundation

Combined Statements of Financial Position

<i>June 30,</i>	2022	2021
Assets		
Current Assets		
Cash and cash equivalents	\$ 13,846,030	\$ 26,380,134
Investments	16,866,205	3,249,210
Grants receivable	371,319	649,219
Contributions receivable, current portion	324,291	292,748
Other receivables	39,720	22,069
Prepaid expenses	412,343	354,581
Inventory	2,494,011	9,597,190
Total Current Assets	34,353,919	40,545,151
Restricted cash	50,111	81,361
Contributions receivable, net	283,558	189,093
Note receivable	5,182,925	5,182,925
Property and equipment, net	27,536,752	26,381,873
Total Assets	\$ 67,407,265	\$ 72,380,403
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	\$ 1,970,583	\$ 1,051,429
Accrued payroll expenses	635,606	710,918
Refundable advances, current portion	125,000	-
Current portion of notes payable	308,081	-
Current portion of loans payable	462,284	410,382
Total Current Liabilities	3,501,554	2,172,729
Long-Term Liabilities		
Loans payable, net of loan fees and current portion	9,997,703	11,648,644
Refundable advances, net of current portion	1,786,110	-
Notes payable, net of loan fees and current portion	7,088,017	7,386,358
Lease deposit	49,794	49,794
Total Long-Term Liabilities	18,921,624	19,084,796
Total Liabilities	22,423,178	21,257,525
Net Assets		
Without donor restrictions		
Undesignated	32,249,796	42,122,878
Board designated	12,460,000	9,000,000
Total net assets without donor restrictions	44,709,796	51,122,878
With donor restrictions	274,291	-
Total Net Assets	44,984,087	51,122,878
Total Liabilities and Net Assets	\$ 67,407,265	\$ 72,380,403

See accompanying notes to combined financial statements.

Food Lifeline and Food Lifeline Foundation

Combined Statements of Activities

Year Ended June 30,	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue						
Contributions						
Foundations and corporations	\$ 7,892,259	\$ -	\$ 7,892,259	\$ 10,302,928	\$ -	\$ 10,302,928
Individuals	8,132,166	274,291	8,406,457	12,782,651	-	12,782,651
In-kind donations	638,896	-	638,896	2,559,182	-	2,559,182
Grants from government agencies	8,206,730	-	8,206,730	13,007,072	-	13,007,072
Community events	1,439,114	-	1,439,114	1,822,172	-	1,822,172
Program revenue	76,920	-	76,920	242,850	-	242,850
Rental income	535,212	-	535,212	823,378	-	823,378
Investment return	(2,010,071)	-	(2,010,071)	444,278	-	444,278
Interest income - note receivable	74,681	-	74,681	74,681	-	74,681
Gain on disposal of property and equipment	21,380	-	21,380	-	-	-
Paycheck Protection Program loan forgiveness	-	-	-	1,189,305	-	1,189,305
Net assets released from restrictions	-	-	-	29,183	(29,183)	-
Total Revenue, excluding in-kind food	25,007,287	274,291	25,281,578	43,277,680	(29,183)	43,248,497
Expenses						
Program services	9,880,385	-	9,880,385	10,804,292	-	10,804,292
Management and general	2,538,496	-	2,538,496	2,303,760	-	2,303,760
Fundraising	2,650,178	-	2,650,178	2,424,459	-	2,424,459
Total Expenses, excluding food procurement, processing, and distribution	15,069,059	-	15,069,059	15,532,511	-	15,532,511
Change in Net Assets Before Food Revenue and Expense	9,938,228	274,291	10,212,519	27,745,169	(29,183)	27,715,986
Food Revenue and Expense						
In-kind food contributions revenue	102,799,623	-	102,799,623	111,803,121	-	111,803,121
Food procurement, processing, and distribution	(119,150,933)	-	(119,150,933)	(128,125,527)	-	(128,125,527)
Net Food Expense	(16,351,310)	-	(16,351,310)	(16,322,406)	-	(16,322,406)
Change in Net Assets	(6,413,082)	274,291	(6,138,791)	11,422,763	(29,183)	11,393,580
Net Assets, beginning of year	51,122,878	-	51,122,878	39,700,115	29,183	39,729,298
Net Assets, end of year	\$ 44,709,796	\$ 274,291	\$ 44,984,087	\$ 51,122,878	\$ -	\$ 51,122,878

See accompanying notes to combined financial statements.

Food Lifeline and Food Lifeline Foundation

Combined Statements of Functional Expenses

Year Ended June 30,	2022				2021			
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Salaries	\$4,932,033	\$1,111,444	\$1,180,909	\$ 7,224,386	\$ 4,229,910	\$ 1,073,261	\$ 1,010,128	\$ 6,313,299
Payroll taxes and employee benefits	1,217,986	274,476	291,630	1,784,092	979,534	229,621	231,522	1,440,677
Total Salaries and Related Expenses	6,150,019	1,385,920	1,472,539	9,008,478	5,209,444	1,302,882	1,241,650	7,753,976
Depreciation	875,361	191,485	205,163	1,272,009	840,401	183,838	196,969	1,221,208
Occupancy	702,160	50,579	13,425	766,164	480,793	264,865	10,019	755,677
Professional fees	184,895	239,324	336,047	760,266	348,033	164,608	440,847	953,488
Temporary labor	492,061	62,034	-	554,095	437,183	100,068	5,861	543,112
Interest	428,410	38,300	41,035	507,745	447,854	40,038	42,898	530,790
Supplies and postage	270,993	70,596	140,569	482,158	265,967	67,255	54,065	387,287
Grants pass through	426,732	-	-	426,732	2,213,227	-	-	2,213,227
Advertising and printing	119	3,711	397,898	401,728	457	11,099	168,439	179,995
Insurance	137,417	12,285	13,163	162,865	105,541	9,435	10,109	125,085
Repairs and maintenance	155,692	-	-	155,692	107,227	-	-	107,227
Conferences and travel	15,307	57,229	2,827	75,363	32,154	12,870	6,147	51,171
Telephone	22,159	4,733	5,048	31,940	19,633	6,262	4,365	30,260
Other	19,060	422,300	22,464	463,824	296,378	140,540	243,090	680,008
Total Expenses, excluding food procurement, processing, and distribution	9,880,385	2,538,496	2,650,178	15,069,059	10,804,292	2,303,760	2,424,459	15,532,511
Food procurement, processing, and distribution	119,150,933	-	-	119,150,933	128,125,527	-	-	128,125,527
Total Expenses	\$ 129,031,318	\$ 2,538,496	\$ 2,650,178	\$ 134,219,992	\$ 138,929,819	\$ 2,303,760	\$ 2,424,459	\$ 143,658,038

See accompanying notes to combined financial statements.

Food Lifeline and Food Lifeline Foundation

Combined Statements of Cash Flows

Year Ended June 30,	2022	2021
Cash Flows from Operating Activities		
Change in net assets	\$ (6,138,791)	\$ 11,393,580
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	1,272,009	1,221,208
Gain on disposal of property and equipment	(21,380)	-
Amortization of debt issuance costs	15,920	15,921
Realized and unrealized (gains) losses on investments	2,312,102	(367,591)
Forgiveness of Paycheck Protection Program Loan	-	(1,189,305)
Changes in operating assets and liabilities		
Grants receivable	277,900	6,280,529
Contributions receivable	18,457	118,961
Prepaid expenses and other current receivables	(75,413)	9,735
Food inventory	7,103,179	(4,987,176)
Accounts payable and accrued expenses	919,154	(1,469,910)
Accrued payroll expenses	(75,312)	40,414
Refundable advances	1,911,110	-
Net Cash Flows from Operating Activities	7,518,935	11,066,366
Cash Flows for Investing Activities		
Proceeds from sales on investments	1,786,865	1,350,632
Purchase of investments	(17,715,962)	(2,466,042)
Purchase of property and equipment	(2,405,508)	(247,264)
Net Cash Flows for Investing Activities	(18,334,605)	(1,362,674)
Cash Flows for Financing Activities		
Contributions received for purchases of long-term assets	(144,465)	281,781
Payments on loans payable	(1,605,219)	(397,554)
Net Cash Flows for Financing Activities	(1,749,684)	(115,773)
Net Change in Cash and Cash Equivalents	(12,565,354)	9,587,919
Cash and Cash Equivalents, beginning of year	26,461,495	16,873,576
Cash and Cash Equivalents, end of year	\$ 13,896,141	\$ 26,461,495
Supplemental Information		
Cash paid for interest	\$ 491,825	\$ 514,869

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 was procured as follows:

<i>Year Ended June 30,</i>	2022	2021
Donated by local food industry	73%	54%
Donated by national food industry through Feeding America	-	1
Donated by the U.S. Department of Agriculture	14	22
Purchased	13	23
	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 Seattle Human Services Department, and through other federal, state, and local programs. Government cash awards consisted of the following:

<i>Year Ended June 30,</i>	2022	2021
City and county governmental agencies	\$ 1,481,954	\$ 1,163,996
Federal and state governmental programs		
We Feed Washington	4,899,875	-
TEFAP - The Emergency Food Assistance Program	870,649	1,940,706
EFAP - Emergency Food Assistance Program	353,222	258,465
EFSP - Emergency Food and Shelter	580,000	306,388
CFAP - COVID Food Assistance Program	-	9,337,517
WSDA Fresh Box	21,030	-
	\$ 8,206,730	\$ 13,007,072

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. Accordingly, actual results could differ from the estimated amounts.

Reclassification

Certain prior-year amounts have been reclassified to conform with current-year presentation.

Financial Statement Presentation

The accompanying combined financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States. 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 without Donor Restrictions

Net assets without donor restrictions are net assets that are not subject to donor-imposed stipulations. Included in net assets without donor restrictions are net assets that are board-designated for specific operating expenses and amount to \$12,460,000 and \$9,000,000 at June 30, 2022 and 2021, respectively.

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. As of June 30, 2022, net assets with donor restrictions consist of \$274,291 to be used in future years. There were no donor restricted net assets as of June 30, 2021.

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;

Food Lifeline and Food Lifeline Foundation

Notes to Combined Financial Statements

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 equivalents. 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 statements of financial position:

<i>June 30,</i>	2022	2021
Cash and cash equivalents	\$ 13,846,030	\$ 26,380,134
Restricted cash	50,111	81,361
	\$ 13,896,141	\$ 26,461,495

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.

Food Lifeline and Food Lifeline Foundation

Notes to Combined Financial Statements

Investments are summarized as follows:

<i>June 30,</i>	2022	2021
Fixed-Income Mutual Funds		
Intermediate-term bond funds	\$ 1,593,629	\$ 472,110
High-yield bond funds	954,237	275,768
Global bond funds	1,097,534	841,000
Balanced funds	552,726	-
Equity Mutual Funds		
Equity income funds	3,437,819	882,173
Global equity funds	3,112,966	541,669
Real estate investment trusts	54,772	103,024
Bonds		
Corporate	10,126	10,538
Convertible	75,340	102,068
Government	5,977,056	-
Publicly Traded Common Stocks	-	20,860
	\$ 16,866,205	\$ 3,249,210

Unrealized gains and losses are included in the change in net assets in the combined statements of activities. Investment return, net of fees, consisted of the following:

<i>Year Ended June 30,</i>	2022	2021
Interest and dividends	\$ 354,438	\$ 93,276
Realized and unrealized gains (loss)	(2,312,102)	367,591
Investment fees	(52,407)	(16,589)
	\$ (2,010,071)	\$ 444,278

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.

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 related to the capital campaign were \$355,248 at June 30, 2022, with \$50,000 of current receivables. All contributions receivable at June 30, 2021, were related to the capital campaign.

Total contributions receivable (including the capital campaign) consisted of the following:

<i>June 30,</i>	2022	2021
Amounts Due in		
Less than one year	\$ 324,291	\$ 292,748
One to five years	305,248	212,500
Total Gross Contributions Receivable	629,539	505,248
Less: Unamortized discount (2% - 5%)	(21,690)	(23,407)
	\$ 607,849	\$ 481,841
<i>June 30,</i>	2022	2021
Contributions receivable, current portion	\$ 324,291	\$ 292,748
Contributions receivable, net	283,558	189,093
	\$ 607,849	\$ 481,841

Of the total contributions receivable at June 30, 2022 and 2021, 92% and 84%, respectively, were due from three donors.

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 made 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. Refundable advances consist of conditional revenue where the cash has been received but the conditions have not yet been met. Grants receivable consist of grant awards where the barrier has been met and amounts are billable under the contract.

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, 2022 and 2021, no such adjustments were made. Of total grants receivable at June 30, 2022 and 2021, essentially all were due from two and four organizations, respectively.

Food Lifeline and Food Lifeline Foundation

Notes to Combined Financial Statements

During the year ended June 30, 2022, the Organization received conditional grants in the amount of \$1,786,110 from the Washington State Department of Commerce. The grants are subject to certain requirements and are subject to recapture for a ten year period. The grants are recorded as refundable advances until conditions are met.

The Organization had additional conditional grants outstanding of \$1,183,258 as of June 30, 2022.

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 consists of the following:

<i>June 30,</i>	2022	2021
Donated food	\$ 1,298,728	\$ 5,097,991
USDA commodities	605,179	1,932,545
Purchased food	590,104	2,566,654
	\$ 2,494,011	\$ 9,597,190

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. Estimated useful lives are as follows:

	Years
Building and improvements	5-39
Warehouse refrigeration	15
Office furniture and equipment	5-20
Vehicles	5
Warehouse equipment	5-20

Food Lifeline and Food Lifeline Foundation

Notes to Combined Financial Statements

Property and equipment consist of the following:

<i>June 30,</i>	2022	2021
Land	\$ 4,665,164	\$ 4,665,164
Building and improvements	24,023,753	24,027,517
Warehouse refrigeration	3,352,264	1,375,832
Office furniture and equipment	1,546,876	1,367,005
Vehicles	1,588,574	1,501,164
Warehouse equipment	1,132,392	1,001,789
	36,309,023	33,938,471
Less: Accumulated depreciation	(8,772,271)	(7,556,598)
	\$ 27,536,752	\$ 26,381,873

In-Kind Donations

Food Lifeline receives significant in-kind contributions from a variety of agencies and community partners. All in-kind donations received are directly or indirectly to support food procurement and distribution to agency partners. Donated space is valued at the fair value of similar properties available in commercial real estate listings. Food Lifeline recognizes in-kind contribution revenue and a corresponding expense, at the estimated fair value, at the time the donation is received, except for donated food. Donated food is recognized as in-kind revenue at a standard cost determined by Feeding America. For the years ended June 30, 2022 and 2021, that standard cost was \$1.79 and \$1.74 per pound, respectively. Donated food revenue is recorded when the donation is received and expensed when the donation is distributed to agency partners.

Donated services are recognized if the services create or enhance nonfinancial assets, require specialized skills, are provided by individuals with those skills, and would have been purchased if not donated. Services are measured by the fair value of the service received, based on amounts paid for comparable services and information provided by the donor. Donated services recognized in these combined financial statements primarily include legal fees. These amounts are included in in-kind donations and related expenses and are included in their natural expense account classifications.

All in-kind donations received by the Organization are used in programs or other activities. The Organization does not sell any in-kind donations.

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.

Food Lifeline and Food Lifeline Foundation

Notes to Combined Financial Statements

Program Revenue

The Organization has a program called Order Up! where participating agencies can purchase specific types of items. The Organization purchases these items and delivers them to the requesting agency. Orders are also received for excess pallets on hand. 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. As of June 30, 2022 and 2021, advertising and printing costs were \$401,728 and \$179,995, respectively.

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:

Expense	Method
Salaries	Estimates of time and effort
Payroll taxes and employee benefits	Estimates of time and effort
Occupancy	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 attributed directly to a functional expense category without allocation.

Income Taxes

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

Recent Accounting Pronouncement Adopted

During the year ended June 30, 2022, the Organization retrospectively adopted the provisions of the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* (Topic 958). The pronouncement was issued to increase the transparency of contributed nonfinancial assets for not-for-profit entities through enhancements to presentation and disclosure. ASU No. 2020-07 does not change the existing recognition and measurement requirements for contributed

Food Lifeline and Food Lifeline Foundation

Notes to Combined Financial Statements

nonfinancial assets. The new standard requires that contributed nonfinancial assets are presented separately in the statement of activities. New disclosures are also required to disaggregate contributed nonfinancial assets by category type and other qualitative information about utilization, policies, and valuation techniques. Contributed nonfinancial assets are broken out in the combined statements of activities and additional disclosures required by adoption of ASU No. 2020-07 are presented in Note 6.

Recently Issued Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which supersedes the current lease guidance under Leases (Topic 840) and makes several changes, such as establishing a right-of use (ROU) model that requires a lessee to record a ROU asset and liability on the statements of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. The update was originally effective for private companies for annual and interim reporting periods beginning after December 15, 2019. In July 2018, the FASB issued ASU 2018-10 *Codification Improvements to Topic 842, Leases*, to add clarity to certain areas within ASU 2016-02, and to add an additional and optional transition method to adopt the new leases standard by allowing recognition of a cumulative-effect adjustment to the opening balance of net assets in the period of adoption. The revised effective date is for annual periods beginning after December 15, 2021. Management is currently evaluating the effect that adoption of this new standard will have on the Organization's combined financial statements.

Subsequent Events

The Organization has evaluated subsequent events through the date these combined financial statements were available to be issued, which was March 30, 2023. See Notes 3, 4, and 5 for exercise of the put option and impacts on the note receivable and notes payable.

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, 2022 and 2021, reduced by amounts that are not available to meet general expenditures within one year of the statements of financial position date because of contractual restrictions. Amounts not available include cash restricted to settle certain debt related obligations, long-term notes and contribution receivables not expected to be collected within one year, and board-designated net assets.

Food Lifeline and Food Lifeline Foundation

Notes to Combined Financial Statements

<i>June 30,</i>	2022	2021
Cash and cash equivalents	\$ 13,896,141	\$ 26,461,495
Investments	16,866,205	3,249,210
Grants receivable	371,319	649,219
Contributions receivable	607,849	481,841
Other receivables	39,720	22,069
Note receivable	5,182,925	5,182,925
Total Financial Assets	36,964,159	36,046,759
Less: Restricted cash	(50,111)	(81,361)
Less: Long-term contributions receivable	(283,558)	(189,093)
Less: Long-term note receivable	(5,182,925)	(5,182,925)
Less: Board designated	(12,460,000)	-
Financial assets available to meet general expenditures within one year	\$ 18,987,565	\$ 30,593,380

3. Note Receivable

As part of the New Markets Tax Credit transaction (see Note 5), 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 both June 30, 2022 and 2021, 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.

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

2023	\$	-
2024		84,054
2025		203,799
2026		206,755
2027		209,754
Thereafter		4,478,563
	\$	5,182,925

Subsequent to year end, U.S. Bank exercised the put option as described in Note 5. As a result, this note receivable was forgiven.

Food Lifeline and Food Lifeline Foundation

Notes to Combined Financial Statements

4. 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).

Notes payable consist of the following at:

<i>June 30,</i>	2022	2021
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: Current portion	(308,081)	-
Less: Unamortized loan fees	(228,902)	(238,642)
	\$ 7,088,017	\$ 7,386,358

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.

Food Lifeline and Food Lifeline Foundation

Notes to Combined Financial Statements

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

2023	\$	308,081
2024		291,451
2025		294,379
2026		297,336
2027		300,323
Thereafter		6,133,430
	\$	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, and was paid subsequent to year-end.

Subsequent to year-end, U.S. Bank exercised the put option as described in Note 5. As a result, \$187,500 of this debt was paid in cash as described above, and the remaining \$7,437,500 was forgiven.

Loans Payable

The Organization entered into two loan agreements (Series A and Series B) with U.S. Bank. Series A has been paid in full during the year ended June 30, 2020.

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, or has obtained waivers for, these covenants as of June 30, 2022.

The loan payable is summarized as follows:

<i>June 30,</i>	2022	2021
Series B Loan	\$ 10,584,615	\$ 12,189,834
Less: Unamortized loan fees	(124,628)	(130,808)
	10,459,987	12,059,026
Less: Current portion	462,284	410,382
	\$ 9,997,703	\$ 11,648,644

Food Lifeline and Food Lifeline Foundation

Notes to Combined Financial Statements

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:

2023	\$	462,284
2024		477,200
2025		492,598
2026		508,493
2027		524,901
Thereafter		8,119,139
	\$	10,584,615

Paycheck Protection Program Loan

In May 2020, the Organization received a loan through the Small Business Administration's (SBA) Paycheck Protection Program (PPP) in the amount of \$1,189,305. The loan and interest were forgiven in full on March 9, 2021, and the proceeds were used for expenditures relating to payroll, rent, and utilities, twenty-four weeks from the when the loan was funded.

The SBA has stated that all PPP loans in excess of \$2 million, and other PPP loans as appropriate, will be subject to review by the SBA for compliance with program requirements. While Food Lifeline believes the PPP loan was properly obtained and forgiven, there can be no assurance regarding the outcome of an SBA review. Food Lifeline has not accrued any liability associated with the risk of an adverse SBA review.

5. 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, which ended in August 2022. 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 3 (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.

Subsequent to year-end, US Bank exercised the put option. The end result of this transaction was for the Organization to forgive the \$5,182,925 note receivable discussed in Note 3. The Organization paid \$187,500 in cash and received forgiveness for the remaining \$7,437,500 of debt discussed in Note 4 resulting in a gain of approximately \$2,255,000.

Food Lifeline and Food Lifeline Foundation

Notes to Combined Financial Statements

6. In-Kind Donations

Donated food and space are utilized to support the Organization's program services.

In-kind donations consisted of the following for the year ended June 30, 2022:

Program	Space	Services	Goods	Total
Food procurement, processing, and distribution	\$ -	\$ -	\$102,799,623	\$102,799,623
Occupancy	637,881	-	-	637,881
Other	-	-	1,015	1,015
Total	\$ 637,881	\$ -	\$102,800,638	\$103,438,519

In-kind donations consisted of the following for the year ended June 30, 2021

Program	Space	Services	Goods	Total
Food procurement, processing, and distribution	\$ -	\$ -	\$111,803,121	\$111,803,121
Occupancy	2,551,824	-	-	2,551,824
Professional fees	-	5,781	-	5,781
Other	-	-	1,577	1,577
Total	\$ 2,551,824	\$ 5,781	\$111,804,698	\$114,362,303

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 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 ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, during the year ended June 30, 2020.

Food Lifeline and Food Lifeline Foundation

Notes to Combined Financial Statements

During the year ended June 30, 2022, the Organization received additional contributions from a government agency to build additional freezer space in the Hunger Solution Center for \$1,786,110. Similar to the contributions described above, if the Hunger Solution Center is sold or is not operating for the intended purpose prior to the end the 10-year period, the Organization will be required to repay the contribution plus interest. Because this contribution was received after the implementation of ASU 2018-08, the contributions were recognized as refundable advances and will be recognized as revenue when the conditions are met at the end of the 10-year period.

8. 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 8% 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, 2022 and 2021, was \$249,108 and \$111,892, respectively. This amount is included in payroll taxes and employee benefits expense on the combined statements of functional expenses.

Supplementary Schedules

Food Lifeline and Food Lifeline Foundation

Combining Statement of Financial Position

<i>June 30, 2022</i>	Food Lifeline	Food Lifeline Foundation	Total
Assets			
Current Assets			
Cash and cash equivalents	\$ 1,644,952	\$ 12,201,078	\$ 13,846,030
Investments	-	16,866,205	16,866,205
Grants receivable	371,319	-	371,319
Contributions receivable, current portion	324,291	-	324,291
Other receivables	39,720	-	39,720
Prepaid expenses	412,343	-	412,343
Inventory	2,494,011	-	2,494,011
Total Current Assets	5,286,636	29,067,283	34,353,919
Restricted cash	50,111	-	50,111
Contributions receivable, net	283,558	-	283,558
Note receivable	-	5,182,925	5,182,925
Property and equipment, net	27,536,752	-	27,536,752
Total Assets	\$ 33,157,057	\$ 34,250,208	\$ 67,407,265
Liabilities and Net Assets			
Current Liabilities			
Accounts payable and accrued expenses	\$ 1,945,693	\$ 24,890	\$ 1,970,583
Accrued payroll expenses	635,606	-	635,606
Refundable advances, current portion	125,000	-	125,000
Current portion of notes payable	308,081	-	308,081
Current portion of loans payable	462,284	-	462,284
Total Current Liabilities	3,476,664	24,890	3,501,554
Long-Term Liabilities			
Loans payable, net of loan fees and current portion	9,997,703	-	9,997,703
Refundable advances, net of current portion	1,786,110	-	1,786,110
Notes payable, net of loan fees and current portion	7,088,017	-	7,088,017
Lease deposit	49,794	-	49,794
Total Long-Term Liabilities	18,921,624	-	18,921,624
Total Liabilities	22,398,288	24,890	22,423,178
Net Assets	10,758,769	34,225,318	44,984,087
Total Liabilities and Net Assets	\$ 33,157,057	\$ 34,250,208	\$ 67,407,265

**Food Lifeline and
Food Lifeline Foundation**

Combining Statement of Activities

<i>Year Ended June 30, 2022</i>	Food Lifeline	Food Lifeline Foundation	Total
Revenue			
Contributions			
Foundations and corporations	\$ 7,892,259	\$ -	\$ 7,892,259
Individuals	8,406,457	-	8,406,457
In-kind donations	638,896	-	638,896
Grants from government agencies	8,206,730	-	8,206,730
Community events	1,439,114	-	1,439,114
Program revenue	76,920	-	76,920
Investment loss, net of fees	(100,034)	(1,910,037)	(2,010,071)
Interest income - note receivable		74,681	74,681
Rental income	535,212	-	535,212
Gain on disposal of property and equipment	21,380	-	21,380
Intercompany	(8,061,293)	8,061,293	-
Total Revenue, excluding in-kind food	19,055,641	6,225,937	25,281,578
Expenses			
Program services	9,880,385	-	9,880,385
Management and general	2,538,496	-	2,538,496
Fundraising	2,650,178	-	2,650,178
Total Expenses, excluding food procurement, processing, and distribution	15,069,059	-	15,069,059
Change in Net Assets Before Food			
Revenue and Expense	3,986,582	6,225,937	10,212,519
Food Revenue and Expense			
In-kind food contributions revenue	102,799,623	-	102,799,623
Food procurement, processing, and distribution	(119,150,933)	-	(119,150,933)
Net Food Expense	(16,351,310)	-	(16,351,310)
Change in Net Assets	(12,364,728)	6,225,937	(6,138,791)
Net Assets, beginning of year	23,123,497	27,999,381	51,122,878
Net Assets, end of year	\$ 10,758,769	\$ 34,225,318	\$ 44,984,087

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



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Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Combined 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, the 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, 2022, 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 March 30, 2023.

Report on 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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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 a 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified a deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item 2022-001, that we consider to be a significant deficiency.



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Report on 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 combined financial statements. 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*.

Organization's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Organization's response to the findings identified in our audit and described in the accompanying Schedule of Findings and Questioned Costs. The Organization's response was not subjected to the other auditing procedures applied in the audit of the combined financial statements and, accordingly, we express no opinion on the response.

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

March 30, 2023



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Independent Auditor's Report on Compliance For Each Major Federal Program; 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

Qualified and Unmodified Opinions

We have audited Food Lifeline and Food Lifeline Foundation's (collectively, the Organization) compliance with the types of compliance requirements identified as subject to audit 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, 2022. 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.

Qualified Opinion on Coronavirus State and Local Fiscal Recovery Funds

In our opinion, except for the noncompliance described in the Basis for Qualified and Unmodified Opinions section of our report, the Organization complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the Coronavirus State and Local Fiscal Recovery Funds for the year ended June 30, 2022.

Unmodified Opinion on The Emergency Food Assistance Program

In our opinion, the Organization complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2022.

Basis for Qualified and Unmodified Opinions

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); 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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified and unmodified opinions on compliance for each major federal program. Our audit does not provide a legal determination of the Organization's compliance with the compliance requirements referred to above.



Matter Giving Rise to Qualified Opinion on Coronavirus State and Local Fiscal Recovery Funds

As described in the accompanying schedule of findings and questioned costs, the Organization did not comply with requirements regarding Assistance Listing No. 21.027 Coronavirus State and Local Fiscal Recovery Funds, as described in finding numbers 2022-003 for Procurement, Suspension, and Debarment.

Compliance with such requirements is necessary, in our opinion, for the Organization to comply with the compliance requirements applicable to that program.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Organization's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Organization's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Organization's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Organization's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Organization's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the Organization's internal control over compliance. Accordingly, no such opinion is expressed.



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We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2022-002. Our opinion on each major federal program is not modified with respect to these matters.

Government Auditing Standards requires the auditor to perform limited procedures on the Organization's response to the noncompliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The Organization is responsible for preparing a corrective action plan to address each audit finding included in our auditor's report. The Organization's corrective action plan was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses.

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 a 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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2022-003 and 2022-002 to be material weaknesses.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.



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Government Auditing Standards requires the auditor to perform limited procedures on the Organization's response to the internal control over compliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The Organization is responsible for preparing a corrective action plan to address each audit finding included in our auditor's report. The Organization's corrective action plan was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

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.

BDO USA, LLP

March 30, 2023

Food Lifeline and Food Lifeline Foundation

Schedule of Expenditures of Federal Awards Year Ended June 30, 2022

<i>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</i>	Pass-Through Entity Identifying Number	Federal Assistance Listing Number	Passed through to Subrecipients	Total Federal Expenditures
Department of Agriculture				
<i>Food Distribution Cluster</i>				
Passed through the State of Washington				
The Emergency Food Assistance Program (TEFAP)				
Administrative Costs	K2770	10.568	\$ -	\$ 458,401
Administrative Costs	K2770	10.568	-	39,306
COVID-19 Administrative Costs	K2770	10.568	-	46,937
Administrative Costs	K2770	10.568	-	326,006
Food Commodities	K2770	10.569	13,163,948	13,178,212
COVID-19 Food Commodities	K2770	10.569	2,693,680	2,693,680
<i>Total Food Distribution Cluster</i>			15,857,628	16,742,542
Passed through the State of Washington				
The Trade Mitigation Program Eligible Recipient				
Agency Operational Funds (TMP)				
Food Commodities	K2770	10.178	12,972	12,972
Total Department of Agriculture			15,870,600	16,755,514

The accompanying notes are an integral part of this schedule.

**Food Lifeline and
Food Lifeline Foundation**

**Schedule of Expenditures of Federal Awards
Year Ended June 30, 2022**

<i>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</i>	Pass-Through Entity Identifying Number	Federal Assistance Listing Number	Passed through to Subrecipients	Total Federal Expenditures
Department of the Treasury				
Passed through We Feed Washington				
Coronavirus State and Local Fiscal Recovery Funds				
COVID-19 Administrative Funds	K3524	21.027	\$ -	\$ 32,469
COVID-19 Food Purchasing Funds	K3524	21.027	-	1,567,531
COVID-19 Food Purchasing Funds	K3633	21.027	-	3,300,000
Total Department of the Treasury			-	4,900,000
Department of Homeland Security				
Passed through United Way of King County				
COVID-19 Emergency Food and Shelter National Board Program	34-8890-00-006 CARES	97.024	-	550,000
Emergency Food and Shelter National Board Program	34-8890-00-006 Phase 37	97.024	-	25,000
Emergency Food and Shelter National Board Program	34-8890-00-006 Phase 38	97.024	-	5,000
Total Department of Homeland Security			-	580,000
Total Federal Expenditures			\$ 15,870,600	\$ 22,235,514

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, 2022. 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 minimis 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, 2022, the Organization had \$605,179 of food commodities in inventory relating to The Emergency Food Assistance Program.

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? X yes _____ none reported

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major federal program:

- Material weakness(es) identified? X yes _____ no
- Significant deficiency(ies) identified? _____ yes X none reported

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

Federal Assistance Listing Number

10.568 & 10.569
21.027

Auditor's Report Issued on Compliance

Unmodified
Qualified

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

X yes _____ none reported

Identification of Major Federal Programs

Assistance Listing Number

10.568 & 10.569
21.027

Name of Federal Program or Cluster

The Emergency Food Assistance Program (TEFAP)
Coronavirus State and Local Fiscal Recovery Funds

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

\$750,000

Auditee qualified as low-risk auditee:

X yes _____ no

Food Lifeline and Food Lifeline Foundation

Schedule of Findings and Questioned Costs

Section II - Financial Statement Findings

2022-01 - Revenue Recognition and Net Assets

Criteria: Management is responsible for applying Accounting Standards Codification (ASC) 958-605, *Not-for-Profit Entities - Revenue Recognition*, and therefore is responsible for the design, implementation, and maintenance of internal controls relevant to this standard to ensure the preparation and fair presentation of financial statements in accordance with the accrual basis of accounting that are free from material misstatement, whether due to fraud or error.

Condition: Under Accounting Standards Update 2018-08, *Not-for-Profit Entities (Topic 958), Clarifying the Scope and the Accounting Guidance for Contributions Received and Made*, issued by the Financial Accounting Standards Board, conditional contributions should be recognized as revenue when all donor-imposed conditions are substantially met. During our testing of grant revenue and conditional grants, we noted conditional grants related to a freezer upgrade were recorded as revenue when received rather than recognized as a refundable advance and conditional revenue until all conditions are met. Additionally, we noted that contributions to be used in future years were originally not included as net assets with donor restrictions.

Cause: Adequate review and understanding of the appropriate accounting treatment for conditional and restricted contributions did not occur.

Effect or Potential Effect: The condition resulted in an overstatement of revenues of \$1,786,110 and an understatement of net assets with donor restrictions of \$274,291.

Recommendation: We recommend additional training on conditional and restricted grants for members of the finance team and additional levels of review on new funding sources.

Views of Responsible Officials: Management agrees with the finding. See the attached unaudited corrective action plan.

Section III - Major Federal Award Programs Findings and Questioned Costs

2022-002 - Eligibility

Federal Agencies: Department of Agriculture

Federal Assistance Listing Numbers: 10.568, 10.569

Program or Cluster: COVID-19 Food Distribution Cluster and Food Distribution Cluster

Pass-Through Entity Identifying Numbers: K2770

Criteria: 2 CFR section 200.303 requires that non-federal entities receiving federal awards establish and maintain internal controls over federal awards that provide reasonable assurance that the non-federal entity is managing the federal awards in compliance with federal statutes, regulations, and the terms and conditions of the federal awards.

Food Lifeline and Food Lifeline Foundation

Schedule of Findings and Questioned Costs

Additionally, Part 6 of the Compliance Supplement states that the Organization should have controls in place to ensure that the accuracy and completeness of data used to determine eligibility requirements are reviewed and agreed to support as necessary by staff and are reviewed by a knowledgeable supervisor.

Condition: These activities were temporarily suspended during the COVID-19 pandemic; however the eligibility requirements resumed during the year ended June 30, 2022. The Organization did not resume eligibility verifications when the requirements were reinstated. A risk assessment spreadsheet is maintained and submitted to the funder annually, which details if subrecipients meet the required eligibility criteria. However, the Organization does not have controls in place to review these eligibility determinations to verify that they are complete and correct.

Cause: There has been turnover in management personnel for the program and management did not know the requirements for subrecipient eligibility verifications had been reinstated.

Effect or Potential Effect: There is a reasonable possibility that resources were provided to subrecipients who were not eligible. The Organization does not have the documentation to verify that eligibility procedures performed over prospective subrecipients occurred.

Questioned Costs: Unknown

Recommendation: Additional internal controls should be implemented to ensure that certifications are performed over all prospective subrecipients, and documentation is maintained and reviewed by an appropriate member of management. Appropriate personnel should also have adequate training related to eligibility compliance requirements and changes in program requirements.

Views of Responsible Officials: Management agrees with the finding and recommendations set forth within and has developed a corrective action plan to address the instances of noncompliance identified and lapses in prescribed internal controls.

2022-003 - Procurement, Suspension, and Debarment

Federal Agencies: Department of the Treasury

Federal Assistance Listing Numbers: 21.027

Program or Cluster: COVID-19 Coronavirus State and Local Fiscal Recovery Funds

Pass-Through Entity Identifying Numbers: K3524, K3633

Criteria: In accordance with §200.318, the non-federal entity must use its own documented procurement procedures which reflect applicable laws and regulations, provided that the procurements conform to applicable federal law and the standards identified. Additionally, the nonfederal entity must maintain records sufficient to detail the history of the procurement. These records are required to include but are not necessarily limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price. All procurement transactions must be conducted in accordance with §200.317 through §200.327.

Food Lifeline and Food Lifeline Foundation

Schedule of Findings and Questioned Costs

In accordance with §200.214 non-federal entities cannot enter into awards, subawards, or contracts with certain parties that are debarred, suspended, or otherwise excluded from or ineligible for participation in federal assistance programs or activities. Non-federal entities must either check for exclusions in the System for Award Management (SAM); collect a certification from the entity or add a clause or condition to the covered transaction with the entity prior to entering into a covered transaction with a non-federal entity.

Condition: The Organization has a policy outlining procurement and suspension and debarment procedures. The Organization also has standard forms in place guiding purchasing decisions. However, those forms lack elements that prompt staff to perform and document procurement and suspension and debarment procedures. The Organization did not maintain adequate documentation that procurement practices were performed in accordance with the Uniform Grant Guidance requirements. The Organization also did not perform or document suspension and debarment checks on prospective vendors and subrecipients.

Cause: The Organization's personnel did not adhere to the documented policies and procedures for ensuring complete documentation of the history of the procurement and the Organization did not have adequate internal controls in place to identify the need to ensure a check for suspended or debarred vendors on contractors occurred and was documented prior to entering into those agreements.

Effect: Failure to maintain proper documentation for vendor selection process and failure to obtain vendor solicitation for procurements is noncompliance with federal regulations. There is a reasonable possibility that resources were purchased from vendors and/or passed through to subrecipients who were suspended and/or debarred.

Questioned Costs: Unknown

Recommendation: Standard forms should be updated to incorporate procurement and suspension and debarment criteria for both vendors and subrecipients. Controls should be implemented to ensure that the procurement decisions and suspension and debarment checks are reviewed by an appropriate member of management and are properly stored for future reference.

Views of Responsible Officials: Management agrees with the finding and recommendations set forth within and has developed a corrective action plan to address the instances of noncompliance identified and lapses in prescribed internal controls.



CORRECTIVE ACTION PLAN
For the Year Ended June 30, 2022

Responsible Individual: Samantha Franklin, CFO
SamanthaF@foodlifeline.org | 206.432.3601

Finding 2022-001 - Revenue Recognition and Net Assets

The conditional grants related to the freezer/cooler project were recorded as revenue when received rather than recognized as a refundable advance and conditional revenue until all conditions were met and contributions to be used in future years were originally not included as net assets with donor restrictions.

The corrective action plan by the Organization is as follows:

1. All grants containing restrictions/conditions will be recorded in line with said restriction/condition and will not be recognized as revenue until that restriction/condition is met.
2. Staff will align with resources that provide the most updated information as accounting standards change so that new standards can be implemented timely.

Completed 02/08/2023

Finding 2022-002 - Eligibility

Compliance activities were temporarily suspended during the COVID-19 pandemic; however, the eligibility requirements resumed during the year ended June 30, 2022. The Organization did not resume eligibility verification when the requirements were reinstated. A risk assessment spreadsheet is maintained and submitted to the funder annually, which details if sub-recipients meet the required eligibility criteria. However, the Organization does not have controls in place to review these eligibility determinations to verify that they are complete and correct.

The corrective action plan by the Organization is as follows:

1. Training on 2 CFR section 200.303 and related federal statutes for all staff involved in the management and implementation of the program.

Estimated date of completion 04/03/2023

2. Improve controls through the implementation of a new annual verification process with each sub-recipient participating in the program (this is in addition to regularly scheduled check-ins required by WSDA and annual risk assessment).

Estimated date of completion 04/28/2023



Finding 2022-003 - Procurement, Suspension, and Debarment

The Organization has a policy outlining procurement and suspension and debarment procedures. The Organization also has standard forms in place guiding purchasing decisions. However, those forms lack elements that prompt staff to perform document procurement and suspension debarment procedures. The Organization did not maintain adequate documentation that procurement practices were performed in accordance with the Uniform Grant Guidance requirements. The Organization also did not perform or document suspension and debarment checks on prospective vendor sub-recipients.

The corrective action plan by the Organization is as follows:

1. This process was implemented and followed but supporting documentation was not stored properly so compliance couldn't be verified. Paper documentation has been moved to a secure storage file in Finance. Subsequently, the verification for suspension and debarment has been moved to an electronic verification process through Verifycomply.com and the supporting documentation is being stored electronically and on the company's portal.

Completed 02/21/2023