

NORTHWEST HARVEST

FINANCIAL STATEMENTS  
With Independent Auditor's Report

YEARS ENDED JUNE 30, 2022 AND 2021

UNIFORM GUIDANCE SUPPLEMENTARY FINANCIAL REPORTS  
YEAR ENDED JUNE 30, 2022



NORTHWEST HARVEST  
FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2022 AND 2021

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INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Northwest Harvest  
Seattle, Washington

**Opinion**

We have audited the accompanying financial statements of Northwest Harvest, a nonprofit corporation, which comprise the statement of financial position as of June 30, 2022 and 2021, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Northwest Harvest 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 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 Financial Statements section of our report. We are required to be independent of Northwest Harvest 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 Financial Statements**

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

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

### **Auditors' Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards 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, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards 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 financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Northwest Harvest's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Northwest Harvest'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 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 basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic 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 April 27, 2023, on our consideration of the Northwest Harvest'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 Northwest Harvest'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 Northwest Harvest's internal control over financial reporting and compliance.



Jacobson Jarvis & Co, PLLC  
Seattle, Washington  
April 27, 2023

NORTHWEST HARVEST

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2022 AND 2021

<u>ASSETS</u>	<u>2022</u>	<u>2021</u>
Current Assets		
Cash and cash equivalents	\$ 8,941,180	\$ 19,321,332
Investments	39,721,039	42,296,300
Contributions and other receivables	4,568,772	1,439,820
Inventory - food held for distribution	2,463,624	10,749,587
Prepays and deposits	<u>390,637</u>	<u>402,556</u>
Total Current Assets	56,085,252	74,209,595
Security Deposit	232,381	163,465
Beneficial Interests in Funds Held by Others	8,017,189	9,317,271
Property and Equipment, net	<u>26,610,798</u>	<u>6,346,187</u>
	<u>\$ 90,945,620</u>	<u>\$ 90,036,518</u>
 <u>LIABILITIES AND NET ASSETS</u> 		
Current Liabilities		
Accounts payable	\$ 2,104,893	\$ 907,746
Accrued liabilities	<u>613,937</u>	<u>899,307</u>
Total Current Liabilities	2,718,830	1,807,053
Refundable Advances	740,488	918,441
Deferred Rent Liability	294,649	163,707
Deferred Gain on Sale of Property	<u>416,136</u>	<u>1,248,406</u>
Total Liabilities	<u>4,170,103</u>	<u>4,137,607</u>
Net Assets		
Without donor restrictions	62,743,603	62,523,376
With donor restrictions	<u>24,031,914</u>	<u>23,375,535</u>
Total Net Assets	<u>86,775,517</u>	<u>85,898,911</u>
	<u>\$ 90,945,620</u>	<u>\$ 90,036,518</u>

See notes to financial statements.

NORTHWEST HARVEST

STATEMENT OF ACTIVITIES

YEARS ENDED JUNE 30, 2022 AND 2021

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue						
Cash contributions and pledges	\$ 27,542,259	\$ 3,773,726	\$31,315,985	\$34,568,897	\$ 7,659,753	\$42,228,650
Contributions of goods and services	16,877,601	-	16,877,601	34,451,055	-	34,451,055
Grants from government agencies	6,781,559	-	6,781,559	18,980,146	-	18,980,146
Investment return, net	(1,118,962)	-	(1,118,962)	116,107	(26,887)	89,220
Other revenue	13,366	-	13,366	266,034	-	266,034
Gain on sale of property	835,058	-	835,058	832,770	-	832,770
Net assets released from restrictions	3,117,347	(3,117,347)	-	871,788	(871,788)	-
Total Support and Revenue	54,048,228	656,379	54,704,607	90,086,797	6,761,078	96,847,875
Expenses						
Program services	47,630,236	-	47,630,236	58,186,428	-	58,186,428
Management and general	2,956,643	-	2,956,643	2,621,311	-	2,621,311
Fundraising	3,241,122	-	3,241,122	3,232,197	-	3,232,197
Total Expenses	53,828,001	-	53,828,001	64,039,936	-	64,039,936
Change in Net Assets	220,227	656,379	876,606	26,046,861	6,761,078	32,807,939
Net Assets - Beginning of Year	62,523,376	23,375,535	85,898,911	36,476,515	16,614,457	53,090,972
Net Asset - End of Year	\$ 62,743,603	\$ 24,031,914	\$ 86,775,517	\$ 62,523,376	\$ 23,375,535	\$ 85,898,911

NORTHWEST HARVEST

STATEMENT OF FUNCTIONAL EXPENSES

YEARS ENDED JUNE 30, 2022 AND 2021

	2022				2021			
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Food and non-food distribution	\$ 31,570,036	\$ -	\$ -	\$ 31,570,036	\$ 39,340,495	\$ -	\$ -	\$ 39,340,495
Labor, taxes and benefits	5,653,561	2,177,347	1,642,899	9,473,807	6,126,033	1,953,275	1,580,874	9,660,182
Partner capacity grants	5,146,647	-	-	5,146,647	3,921,206	-	-	3,921,206
Facilities and equipment	2,735,268	64,374	47,583	2,847,225	2,382,414	54,017	37,957	2,474,388
Professional services	472,700	287,609	286,576	1,046,885	618,393	193,156	203,257	1,014,806
Food and non-food transportation	885,600	4,738	-	890,338	708,860	100	27	708,987
Other operating	217,034	197,875	334,046	748,955	483,296	239,377	190,789	913,462
Depreciation and amortization	486,932	41,972	63,638	592,542	426,260	39,814	61,781	527,855
In-kind media services	-	-	532,000	532,000	-	-	659,830	659,830
Technology and telecommunications	228,023	84,736	67,932	380,691	244,230	78,541	69,711	392,482
Travel, learning and outreach	106,195	82,101	66,336	254,632	99,225	46,727	63,143	209,095
Branding, marketing and solicitations	1,800	15,891	200,112	217,803	5,653	16,304	364,828	386,785
Other in-kind goods and services	126,440	-	-	126,440	3,830,363	-	-	3,830,363
Total Expenses	<u>\$ 47,630,236</u>	<u>\$ 2,956,643</u>	<u>\$ 3,241,122</u>	<u>\$ 53,828,001</u>	<u>\$ 58,186,428</u>	<u>\$ 2,621,311</u>	<u>\$ 3,232,197</u>	<u>\$ 64,039,936</u>



NORTHWEST HARVEST

STATEMENT OF CASH FLOWS

YEARS ENDED JUNE 30, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
<b>Cash Flows from Operating Activities</b>		
Cash received from:		
Donors	\$ 30,194,463	\$ 40,388,145
Government agencies	5,896,258	19,886,663
Investment income	7,013	209,630
Other revenue	16,154	266,534
Cash paid for:		
Personnel	(9,759,177)	(9,504,026)
Food and non-food items for distribution	(6,406,472)	(5,816,050)
Grantees	(5,146,647)	(3,921,206)
Services and supplies	<u>(5,773,877)</u>	<u>(14,400,790)</u>
Net Cash Provided by Operating Activities	<u>9,027,715</u>	<u>27,108,900</u>
<b>Cash Flows from Investing Activities</b>		
Proceeds from sale of investments	2,395,282	-
Purchases of investments	(945,996)	(41,142,564)
Purchases of property and equipment	<u>(20,857,153)</u>	<u>(4,019,977)</u>
Net Cash Used by Investing Activities	<u>(19,407,867)</u>	<u>(45,162,541)</u>
Changes in Cash and Cash Equivalents	(10,380,152)	(18,053,641)
Cash and Cash Equivalents - beginning of year	<u>19,321,332</u>	<u>37,374,973</u>
Cash and Cash Equivalents - end of year	<u>\$ 8,941,180</u>	<u>\$ 19,321,332</u>

# NORTHWEST HARVEST

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2022 AND 2021

### NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Northwest Harvest (the Organization) is a Washington nonprofit corporation. The Organization's mission is growing food justice through collective action. The Organization's vision is ending hunger in Washington State.

The Organization recognizes that repairing the centuries-old systems of oppression that perpetuate hunger and poverty is not something one organization can do on its own. The Organization is part of a nationwide movement that advocates for equitable policies, distributed leadership, and a right to food for all people nationwide. It partners with a network of over 400 organizations to operate an emergency food supply chain in every county in Washington, and runs a no-cost grocery market in Seattle where people can shop with dignity. Through food distribution, Northwest Harvest gets nutritious food to its partners and promotes more equitable systems along the way.

The Organization has a memorandum of understanding with the Anti-Hunger Nutrition Coalition (AHNC) and Soul of Seattle (SOS). Under this agreement, the Organization will serve as a fiscal sponsor until AHNC and SOS incorporate and obtain tax exempt status. All donations received by the Organization on behalf of AHNC and SOS will be treated as donor-restricted donations and will be released when spent on the AHNC and SOS program. During the years ended June 30, 2022 and 2021, amounts received and paid on behalf of AHNC and SOS were not significant to the financial statements.

#### Basis of presentation

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

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

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

# NORTHWEST HARVEST

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2022 AND 2021

### NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

#### Cash and cash equivalents

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

#### Fair value measurements

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

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

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

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

#### Investments

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

NORTHWEST HARVEST

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2022 AND 2021

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Receivables

Contributions and other receivables are stated at amounts the Organization expects to collect from outstanding balances. The allowance for doubtful accounts is maintained at a level considered adequate to provide for potential uncollectible contributions and past due receivables. The adequacy of the allowance is based upon the Organization's evaluation of the quality, character, and inherent risks in the various receivable categories. Uncollectible amounts are written off against the allowance when the Organization has exhausted all collection efforts. The allowance for doubtful accounts totaled \$20,643 as of June 30, 2022 and 2021.

Inventory

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

Beneficial interest in funds held by others

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

Property and equipment

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

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

	Estimated <u>Useful Lives</u>	<u>2022</u>	<u>2021</u>
Land		\$ 2,556,385	\$ 2,534,378
Building and improvements	5 - 10 years	348,436	348,436
Leasehold improvements		2,352,898	2,342,190
Office furniture and equipme	5 - 10 years	752,289	752,289
Food storage equipment	5 - 7 years	1,576,320	1,576,320
Automotive equipment	5 years	1,914,524	1,735,452
Computers and software	3 - 5 years	1,058,354	1,058,354
Construction in progress		<u>21,727,606</u>	<u>1,129,244</u>
		32,286,812	11,476,663
Less accumulated depreciation		<u>(5,676,014)</u>	<u>(5,130,476)</u>
		<u>\$ 26,610,798</u>	<u>\$ 6,346,187</u>

# NORTHWEST HARVEST

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2022 AND 2021

### NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Refundable advances

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

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

#### Deferred rent

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

#### Support recognition

The Organization recognizes contributions when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return or release, are not recognized until the conditions on which they depend have been met. Certain of the Organization's contracts and grants are conditioned upon certain performance requirements and the incurrence of allowable qualifying expenses. Consequently, conditional grants and fee-for-service government contracts for which no amounts had been received in advance, totaling \$860,182 and \$1,306,903 for the years ending June 30, 2022 and 2021, respectively, have not been recognized in the accompanying financial statements.

#### Donated goods and services

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

NORTHWEST HARVEST

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2022 AND 2021

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

	<u>2022</u>	<u>2021</u>
Food and non-food goods received	\$ 16,278,111	\$ 29,880,418
Donated media	532,000	659,830
Other donated goods and services	<u>67,490</u>	<u>3,910,807</u>
Total contributed goods and services	<u>\$ 16,877,601</u>	<u>\$ 34,451,055</u>

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

The hourly wage was \$27.53 for the year ended June 30, 2022. The fair value of 11,421 volunteer hours is estimated by management to be worth approximately \$314,420 (unaudited) for the year ended June 30, 2022. The hourly wage was \$25.81 for the year ended June 30, 2021. The fair value of 62,371 volunteer hours is estimated by management to be worth approximately \$1,609,796 (unaudited) for the year ended June 30, 2021.

Functional allocation of expenses

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

Advertising

The Organization uses advertising to promote its programs among the community it serves. The cost of advertising is expensed as incurred. Advertising costs totaled \$46,585 and \$34,784 for the years ending June 30, 2022 and 2021, respectively.

Concentrations

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

As of June 30, 2021, 36% of contributions and other receivables were due from the Washington State Department of Agriculture. No such concentrations existed at June 30, 2022.

# NORTHWEST HARVEST

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2022 AND 2021

### NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Unemployment self-insurance

The Organization is a member of the 501(c) Agencies Trust (the Trust). The Trust facilitates the utilization by member agencies of the reimbursement financing method of meeting obligations under state unemployment insurance statutes. The reserve balance totaled \$97,660 and \$107,216 at June 30, 2022 and 2021, respectively, and is included in prepaid expenses on the statement of financial position. On a quarterly basis, the Organization reviews the activity in its Trust account and reduces the reserve balance by any claims disbursed from its account. An accrual of \$10,000 as of June 30, 2022 and 2021 has been made for any potentially incurred but not reported unemployment claims that may exist and is included in accrued liabilities on the statement of financial position.

#### Contingencies

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

#### Income taxes

The Internal Revenue Service has recognized the Organization as exempt from federal income taxes under provision of Section 501(a) of the Internal Revenue Code as an entity described in Section 501(c)(3) and not as a private foundation. The Organization evaluates its uncertain tax positions and a loss contingency is recognized when it is more likely than not that a liability has been incurred and the amount can be reasonably estimated.

#### Risks and uncertainties

The Organization invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.

In 2022, inflation was at its highest level in decades in the United States and globally. Per the U.S. Bureau of Labor Statistics, inflation for food exceeded 10% for the 12-months ending with June 2022. This impacts the Organization in multiple ways. Food purchasing will be at increased prices for the foreseeable future, and higher fuel prices also leads to increased procurement costs. Secondly, donations of food are down due to a more limited supply coming from retail grocery stores and individuals. Lastly, inflation has the potential to limit monetary donations due to the tightening of household budgets. Management is continually evaluating the ongoing impact of inflation.

NORTHWEST HARVEST

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2022 AND 2021

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of estimates

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

NOTE B - LIQUIDITY

The Organization strives to maintain liquid financial assets sufficient to cover a minimum of three months, including expected food purchases, of total operating expenses including the following: Cash reserves representing a minimum of three months of total operating expenses comprised of checking and money market accounts held in FDIC insured bank accounts or other cash equivalent accounts. Operating expenses are defined as the 12 months forward looking average cash basis expenses based on budget or forecast.

The following table reflects the Organization's financial assets as of June 30, 2022 and 2021, respectively, reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date because of donor restrictions or designations by the board of directors.

	<u>2022</u>	<u>2021</u>
Total financial assets	\$ 61,248,180	\$ 72,374,723
Less: Board designated Funds	(899,416)	(17,905,540)
Less: Donor-imposed restrictions		
Specific time or purpose restrictions	(14,414,232)	(15,963,804)
Endowments	<u>(9,617,682)</u>	<u>(7,411,731)</u>
	<u>\$ 36,316,850</u>	<u>\$ 31,093,648</u>

NOTE C - FAIR VALUE MEASUREMENTS

Fair value of assets measured on a recurring basis (at least annually) is as follows at June 30, 2022:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents				
held for investment	\$ 97,629	\$ -	\$ -	\$ 97,629
Corporate and municipal bonds	39,623,410	-	-	39,623,410
Beneficial interests in				
funds held by others	-	-	8,017,189	8,017,189
	<u>\$ 39,721,039</u>	<u>\$ -</u>	<u>\$ 8,017,189</u>	<u>\$ 47,738,228</u>



NORTHWEST HARVEST

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2022 AND 2021

NOTE C - FAIR VALUE MEASUREMENTS (Continued)

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

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

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

Fair Value as of July 1, 2020	\$ 7,799,884
Additions	2,033,693
Distributions	(451,035)
Investment returns, net	<u>(65,271)</u>
Fair Value as of June 30, 2021	\$ 9,317,271
Additions	-
Distributions	(65,672)
Investment returns, net	<u>(1,234,410)</u>
Fair Value as of June 30, 2022	<u>\$ 8,017,189</u>

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

Perpetual trust

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

NORTHWEST HARVEST

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2022 AND 2021

NOTE D - BENEFICIAL INTEREST IN FUNDS HELD BY OTHERS

Seattle Foundation and Floyd Jones Endowment

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

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

	<u>2022</u>	<u>2021</u>
Floyd Jones Endowment	\$ 6,899,416	\$ 7,905,540
Perpetual Trust	970,953	1,233,815
Seattle Foundation Endowment	146,820	177,916
Total beneficial interest in funds held by others	\$ 8,017,189	\$ 9,317,271

NOTE E - NET ASSETS WITH DONOR RESTRICTIONS

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

	<u>2022</u>	<u>2021</u>
Subject to expenditure for specific purpose:		
Food and Other Program Services	\$ 13,995,778	\$ 15,558,829
Anti-Hunger Nutrition Coalition	72,380	17,048
Soul of Seattle	194,241	199,228
Restricted Other (Advocacy)	132,125	176,612
Health Community Advisory Network	19,708	12,087
	14,414,232	15,963,804
Subject to distribution in accordance with trust agreements:		
Floyd Jones Endowment	\$ 8,499,909	\$ 6,000,000
Perpetual Trust	970,954	1,233,816
Seattle Foundation Endowment	146,819	177,915
	9,617,682	7,411,731
Total net assets with donor restrictions	\$ 24,031,914	\$ 23,375,535

NORTHWEST HARVEST

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2022 AND 2021

NOTE E - NET ASSETS WITH DONOR RESTRICTIONS (Continued)

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

	<u>2022</u>	<u>2021</u>
Food and other program services	\$ 3,040,853	\$ 870,447
Other purpose-related expenditures	76,494	1,341
	<u>\$ 3,117,347</u>	<u>\$ 871,788</u>

Board-designated net assets (without donor restrictions) are \$899,416 from the Floyd Jones Endowment earnings for the year ended June 30, 2022. Board-designated net assets (without donor restrictions) were \$17,905,540 as of June 30, 2021 consisting of \$16,000,000 in proceeds from the sale of the Kent warehouse and \$1,905,540 from the Floyd Jones Endowment earnings for the year ended June 30, 2021. As the Kent warehouse proceeds were designated for the construction of the new Yakima building, the \$16,000,000 was released and spent during the year ended June 30, 2022.

NOTE F - ENDOWMENT

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

Interpretation of Relevant Law

The Board has reviewed the Washington State Uniform Prudent Management of Institutional Funds Act (UPMIFA), and, having considered its rights and obligations thereunder, has determined that it is desirable to preserve, on a long-term basis, the fair value of the original gifts as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this determination, the Organization classifies as endowment assets (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

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

NORTHWEST HARVEST

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2022 AND 2021

NOTE F - ENDOWMENT (Continued)

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

Return Objectives and Risk Parameters

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

Strategies for Achieving Objectives

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

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

	<u>2022</u>	<u>2021</u>
Endowment Net Assets, beginning of year	\$ 177,915	\$ 140,807
Contributions	-	45,601
Distributions	(6,254)	-
Investment returns	(24,842)	(8,493)
Endowment net assets, end of year	<u>\$ 146,819</u>	<u>\$ 177,915</u>

NOTE G - RETIREMENT PLAN 401k

The Organization offers a retirement savings plan (the plan) under section 401(k) of the Internal Revenue Code. At the discretion of the Board of Directors, the Organization has chosen to contribute to each employee eligible to participate in the plan. Employer contributions for the years ended June 30, 2022 and 2021 totaled \$323,377 and \$286,035, respectively.

## NORTHWEST HARVEST

### NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2022 AND 2021

#### NOTE H - COMMITMENTS

##### Headquarters lease

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

##### Community Market lease

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

##### Kent warehouse sale leaseback

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

In accordance with financial accounting standards, the Organization has accounted for the gain on the sale of the Kent Warehouse under sale-leaseback accounting, which requires the deferral of a portion of the gain on the sale of the property, recognition of which will occur over the term of the lease in proportion to the lease payments. Gain on sale of the property totaled \$7,821,713. Of the total gain, \$2,496,811 was initially deferred. Of this amount, \$832,270 were amortized during the years ended June 30, 2022 and 2021. The remaining deferred gain totaled \$416,136 as of June 30, 2022.

##### Auburn lease

Subsequent to June 30, 2022, the Kent warehouse was vacated and all inventory was minimized in order to move to a smaller warehouse in Auburn. The Auburn lease term runs February 2022 through April 2027 with base monthly rent payments escalating from approximately \$46,000 to \$54,000.

##### Other warehouse leases

The Organization has leases for warehouse space in Spokane and Yakima. The Spokane lease term runs October 2018 through October 2023 with base monthly rent payments escalating from approximately \$6,300 to \$7,000. The Yakima lease term runs January 2019 through December 2022 with base monthly rent payments escalating from approximately \$9,500 to \$10,300; as the Organization received its certificate of occupancy in November 2022, the Yakima warehouse has been vacated and inventory moved to the new building.

NORTHWEST HARVEST

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2022 AND 2021

NOTE H - COMMITMENTS (Continued)

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

	Minimum Lease <u>Payment</u>	Deferred Rent <u>Liability</u>	Rent <u>Expense</u>
2023	\$ 1,370,111	\$ (11,693)	\$ 1,358,418
2024	837,273	(23,846)	813,427
2025	837,140	(50,286)	786,854
2026	866,144	(79,290)	786,854
2027	737,759	(85,534)	652,225
Thereafter	288,192	(44,000)	244,192
	<u>\$ 4,936,619</u>	<u>\$ (294,649)</u>	<u>\$ 4,641,970</u>

Rent expense under these leases totaled \$1,960,505 and \$1,532,680 for the years ended June 30, 2022 and 2021, respectively.

Yakima warehouse construction

In September 2020, the Organization entered into a purchase and sale agreement to purchase land in Yakima, Washington as part of its long-term strategy to develop a new distribution facility and expand the community market footprint in Eastern Washington by the end of 2022. On March 3, 2021, the purchase of land was completed at a cost of \$2,410,000. During the year ended June 30, 2021, the Organization entered into a contract to build a 189,686 square-foot pre-engineered steel building at a total cost of \$30 million to be used as the new Yakima distribution center with chilled and freezer space and a community market. Primary construction was complete and the Organization was able to start moving into the new building in November 2022. The Fruitvale Community Market is scheduled to open in April 2023.

NOTE I - SUBSEQUENT EVENTS

Management has evaluated events occurring subsequent to June 30, 2022 through April 27, 2023, which is the date the financial statements were available to be issued and has recognized in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at June 30, 2022, including the estimates inherent in the processing of financial statements. The following events arose after June 30, 2022 relating to conditions that did not exist as of June 30, 2022.

NORTHWEST HARVEST

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2022 AND 2021

NOTE I - SUBSEQUENT EVENTS (Continued)

The Organization became a fiscal sponsor of National Right to Food Community of Practice as of December 2022. The Organization has also completed the construction of the Yakima Distribution Center and began conducting operations from the facility as of November 2022.

In April 2023, the Organization was awarded a \$3,150,000 grant from the Washington State Department of Commerce to complete the new building construction. The grant contains a clause that it shall be secured by a deed of trust. The deed of trust is to remain in full force and effect for a period of ten years following final payment of state funds, which has yet to be received as of April 27, 2023. This condition requires that the funds be treated as a refundable advance for a period of 10 years upon receipt of final payment, at which time the conditional nature of the grant is expected to be met.

**SUPPLEMENTARY INFORMATION**



NORTHWEST HARVEST

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEARS ENDED JUNE 30, 2022 AND 2021

Federal Grantor <i>Pass-through Grantor</i> "Program Title"	Contract Number	Assistance Listing Number	Passed Through To Subrecipients	Federal Expenditures
<b>Department of Agriculture</b>				
<i>Washington State Department of Agriculture</i>				
"Emergency Food Assistance Program (Food Commodities)"	K3424	10.569	\$ -	\$ 448,139
Subtotal Department of Agriculture			-	448,139
<b>Department of Health and Human Services</b>				
<i>Washington State Department of Health</i>				
"Sodium Reduction in Communities"	CDIP 1002	93.082	-	83,786
<i>Washington State Department of Health</i>				
"PPHF: Racial and Ethnic Approaches to Community Health Program financed solely by Public Prevention and Health Funds"	CDIP 3510	93.738	-	50,653
Subtotal Department of Health and Human Services			-	134,439
<b>Department of the Treasury</b>				
COVID-19 "Coronavirus State and Local Fiscal Recovery Funds"	K3521		-	2,447,211
COVID-19 "Coronavirus State and Local Fiscal Recovery Funds"	K3636		-	3,849,333
		21.027*	-	6,296,544
COVID-19 "Coronavirus Relief Fund"	K3095	21.019	134,216	134,216
Subtotal Department of the Treasury			134,216	6,430,760
Total Expenditures of Federal Awards			\$ 134,216	\$ 7,013,338

\* Denotes a major program.

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Northwest Harvest and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B - INDIRECT COST RATE

Northwest Harvest does not have a negotiated indirect cost rate for use on federal grants and contracts. As such, Northwest Harvest is eligible to elect use of the 10% de minimus indirect cost rate.

INDEPENDENT AUDITOR'S REPORT  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors  
Northwest Harvest  
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 financial statements of Northwest Harvest (a nonprofit organization), which comprise the statement of financial position as of June 30, 2022 and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 27, 2023.

**Report on Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Northwest Harvest'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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of Northwest Harvest's internal control. Accordingly, we do not express an opinion on the effectiveness of Northwest Harvest'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 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. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2022-002 that we consider to be a material weakness. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2022-01 and 2022-003 that we consider to be significant deficiencies.

### **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Northwest Harvest'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Northwest Harvest Response to Findings**

*Government Auditing Standards* requires the auditor to perform limited procedures on Northwest Harvest's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. Northwest Harvest's response was not subjected to the other auditing procedures applied in the audit of the 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 Northwest Harvest's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Northwest Harvest's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Jacobson Jarvis & Co, PLLC  
Seattle, Washington  
April 27, 2023

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE  
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE AS REQUIRED BY THE UNIFORM GUIDANCE

Board of Directors  
Northwest Harvest  
Seattle, Washington

**Report on Compliance with Each Major Federal Program**

We have audited Northwest Harvest's compliance with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on each of Northwest Harvest's major federal programs for the year ended June 30, 2022. Northwest Harvest's major federal programs are identified in the summary of audit results section of the accompanying schedule of findings and questioned costs.

**Opinion on Each Major Federal Program**

In our opinion, Northwest Harvest 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, 2022.

**Basis for Opinion on Each Major Federal Program**

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; 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 Northwest Harvest 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination of Northwest Harvest's compliance with the compliance requirements referred to above.

**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 Northwest Harvest'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 Northwest Harvest'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 generally accepted auditing standards, *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 Northwest Harvest's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *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 Northwest Harvest'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 Northwest Harvest'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 Northwest Harvest's internal control over compliance. Accordingly, no such opinion is expressed.

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.

## **Report on 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 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. 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 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. During our audit we did identify deficiencies in internal control over compliance that we consider to be material weaknesses, as described in the accompanying schedule of findings and questioned costs as items 2022-004 and 2022-005.

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.

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.



Jacobson Jarvis & Co, PLLC  
Seattle, Washington  
April 27, 2023

## NORTHWEST HARVEST

### SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2022

#### A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unmodified opinion on the financial statements of Northwest Harvest.
2. Deficiencies in internal control over preparation of the financial statements are reported in the "Independent Auditor's Report Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*." Item 2022-002 was deemed to be a material weakness and items 2022-001 and 2022-003 were deemed to be significant deficiencies.
3. No instances of noncompliance material to the financial statements of Northwest Harvest were disclosed during the audit.
4. Deficiencies in internal controls over compliance are reported in the "Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance as Required by the Uniform Guidance." Items 2022-004 and 2022-005 were deemed to be material weaknesses.
5. The auditor's report on compliance for the major federal award program for Northwest Harvest expresses an unmodified opinion.
6. Audit findings relative to the major federal award program for Northwest Harvest are reported in Part C of this Schedule.
7. The program tested as major was Coronavirus State and Local Fiscal Recovery Funds, Assistance Listing No.21.027.
8. The threshold used for distinguishing between Type A and B programs was \$750,000.
9. Northwest Harvest was not determined to be a low-risk auditee.

#### B. FINDINGS - FINANCIAL STATEMENT AUDIT

##### **2022-001 Internal Control - Inventory Review**

Management is responsible for designing, implementing, and maintaining a system of internal control relevant to the preparation and fair presentation of the financial statements. During our walkthrough of internal controls, we noted there was no CFO review of inventory consistently throughout the year which is supposed to be part of the month-end close process. While material data entry errors may be detected during routing review of financial reports, less significant errors could go undetected.

We recommend that the CFO (or other appropriate individual) review and document her review of inventory documents each month as part of the month-end close process.

NORTHWEST HARVEST

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2022

B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

Views of a Responsible Official: Management concurs with the finding and recommendation as reflected in the corrective action plan.

**2022-002 Internal Control - Time Sheets**

Management is responsible for designing, implementing, and maintaining a system of internal control relevant to the preparation and fair presentation of the financial statements. During our testing of internal controls, we noted several instances where electronic timesheets in ADP were not approved by the staff person's supervisor, or at least no report or documentation that could verify it.

We recommend that Northwest Harvest either keep records of timesheet approvals after each pay period or work with its payroll provider to be able to run historical reports proving timesheet approvals, which should include supervisor names.

Views of a Responsible Official: Management concurs with the finding and recommendation as reflected in the corrective action plan.

**2022-003 Internal Control - Accounting Policies**

Management is responsible for designing, implementing, and maintaining a system of internal control relevant to the preparation and fair presentation of the financial statements. During our testing of internal controls, we noted Northwest Harvest lacks a policy for government grant revenue recognition.

We recommend that management establish and document a policy that articulates the accounting treatment of government grants.

Views of a Responsible Official: Management concurs with the finding and recommendation as reflected in the corrective action plan.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT

**2022-004 Internal Control Over Procurement and Suspension and Debarment**

Federal Agency: Department of the Treasury  
Assistance Listing No. 21.027

Criteria: Award recipients must adopt and maintain procurement policies that comply with procurement standards set out at 2 CFR sections 200.318 through 200.326. In addition, they must have procedures in place to ensure that contractors hired are not suspended or debarred or otherwise excluded from participating in federally funded programs.



NORTHWEST HARVEST

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2022

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT  
(Continued)

Condition: Northwest Harvest has yet to formally adopt a procurement policy that meets the requirements of the Uniform Guidance and has not established procedures to ensure that contractors hired are not suspended or debarred or otherwise excluded from participating in federally funded programs.

Questioned Costs: No reportable questioned costs.

Effect: The lack of a procurement policy that meets the requirements of the Uniform Guidance, including procedures to ensure that contractors are not suspended or debarred, could lead to inappropriate purchasing decisions and potentially disallowed costs.

Cause: Management has yet to formally adopt the procurement requirements of the Uniform Guidance.

Recommendation: We recommend that Northwest Harvest adopt and maintain procurement policies that comply with procurement standards set out at 2 CFR sections 200.318 through 200.326, including procedures to ensure that contractors hired are not suspended or debarred or otherwise excluded from participating in federally funded programs.

Views of a Responsible Official: Management concurs with the finding and recommendation as reflected in the corrective action plan.

**2022-005 Grant Expense Allocations**

Federal Agency: Department of the Treasury  
Assistance Listing No. 21.027

Criteria: Award recipients must allocate and document expenses and payroll under government grants.

Condition: Northwest Harvest could not provide proper documentation showing expense codes for various disbursements in our testing. Furthermore, timesheets do not include project codes and therefore there is no documentation of how employees spend their time on government grants.

Questioned Costs: No reportable questioned costs.

Effect: The lack of tracking expenses and payroll by grant could lead to inappropriate costs applied to grants or employee time spent or underspent as applied to grants.

NORTHWEST HARVEST

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2022

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT  
(Continued)

Cause: Management did not fully understand the tracking of expenses and employee time as necessary per the grant agreements and Uniform Guidance.

Recommendation: We recommend that management work with its accounting system and its payroll processing system to provide appropriate tracking of costs and time allocated to grants, and that Northwest Harvest be able to provide appropriate documentation for the grant compliance.

Views of a Responsible Official: Management concurs with the finding and recommendation as reflected in the corrective action plan.