

HAWAII FOODBANK, INC.

**FINANCIAL STATEMENTS
As of and for the Year Ended June 30, 2019
With Prior Year Comparative Information
And Independent Auditor's Report**



CW Associates

A Hawaii Certified Public Accounting Corporation

INDEPENDENT AUDITOR'S REPORT

Hawaii Foodbank, Inc.:

Report on the Financial Statements

We have audited the accompanying financial statements of Hawaii Foodbank, Inc. (Organization), a nonprofit Hawaii corporation, which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair representation 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion on the Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note A to the financial statements, during the year ended June 30, 2019, the Organization adopted Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Report on Prior Year Comparative Information

We have previously audited the financial statements of the Organization as of and for the year ended June 30, 2018, and our report dated March 28, 2019, expressed an unmodified opinion on those audited financial statements. In our opinion, the accompanying prior year comparative information presented herein is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 2, 2020, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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.

CW ASSOCIATES, CPAs

Honolulu, Hawaii
April 2, 2020

HAWAII FOODBANK, INC.

STATEMENT OF FINANCIAL POSITION

As of June 30, 2019
(With Prior Year Comparative Information)

	<u>2019</u>	<u>2018</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,968,044	\$ 4,091,044
Receivables – net	468,916	621,492
Investments	3,991,051	2,105,539
Inventory – net	2,061,197	1,661,280
Prepaid expenses and other assets	36,555	71,255
Total current assets	<u>9,525,763</u>	<u>8,550,610</u>
NONCURRENT ASSETS		
Board designated investments	10,782,286	10,815,117
Property and equipment – net	3,523,857	3,477,444
Beneficial interest in perpetual trust	222,621	222,351
Endowment for building maintenance	400,000	400,000
Endowment for agency assistance	400,000	400,000
Total noncurrent assets	<u>15,328,764</u>	<u>15,314,912</u>
TOTAL ASSETS	<u>\$24,854,527</u>	<u>\$ 23,865,522</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 24,490	\$ 59,691
Accrued liabilities	423,583	353,953
Due to agencies	595,171	578,098
Total current liabilities	<u>1,043,244</u>	<u>991,742</u>
ASSET RETIREMENT OBLIGATION	<u>36,443</u>	<u>34,380</u>
TOTAL LIABILITIES	<u>1,079,687</u>	<u>1,026,122</u>
NET ASSETS		
Net assets without donor restrictions		
Undesignated	8,109,424	7,057,946
Board designated	10,782,286	10,815,117
Invested in property and equipment	<u>1,383,745</u>	<u>1,268,373</u>
Total net assets without donor restrictions	20,275,455	19,141,436
Net assets with donor restrictions	<u>3,499,385</u>	<u>3,697,964</u>
Total net assets	<u>23,774,840</u>	<u>22,839,400</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$24,854,527</u>	<u>\$ 23,865,522</u>

See accompanying notes to the financial statements.

HAWAII FOODBANK, INC.

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2019
(With Prior Year Comparative Information)

	<u>2019</u>	<u>2018</u>
CHANGES IN NET ASSETS		
WITHOUT DONOR RESTRICTIONS		
Revenue and support		
Food contributions	\$ 24,157,787	\$ 23,889,101
Contributions from the public without donor restrictions	3,557,876	3,455,662
Public and private grants without donor restrictions	1,791,439	1,091,567
Net assets released from donor restrictions	1,008,875	987,298
Investment income	950,758	468,557
Shared maintenance fees	602,738	491,007
Special events – net	130,284	139,111
Total revenue and support	<u>32,199,757</u>	<u>30,522,303</u>
Expenses		
Program services	<u>28,953,552</u>	<u>28,747,129</u>
Supporting services		
Management and general	1,058,725	716,552
Fundraising and development	1,053,461	905,721
Total supporting services	<u>2,112,186</u>	<u>1,622,273</u>
Total expenses	<u>31,065,738</u>	<u>30,369,402</u>
Increase in net assets without donor restrictions	<u>1,134,019</u>	<u>152,901</u>
CHANGES IN NET ASSETS		
WITH DONOR RESTRICTIONS		
Contributions and grants with donor restrictions	795,039	833,296
Interest income	14,987	13,253
Change in value of charitable trust	270	3,225
Net assets released from donor restrictions	<u>(1,008,875)</u>	<u>(987,298)</u>
Decrease in net assets with donor restrictions	<u>(198,579)</u>	<u>(137,524)</u>
INCREASE IN NET ASSETS	935,440	15,377
NET ASSETS – Beginning of year	<u>22,839,400</u>	<u>22,824,023</u>
NET ASSETS – End of year	<u>\$ 23,774,840</u>	<u>\$ 22,839,400</u>

See accompanying notes to the financial statements.

HAWAII FOODBANK, INC.

STATEMENT OF CASH FLOWS

**For the Year Ended June 30, 2019
(With Prior Year Comparative Information)**

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 935,440	\$ 15,377
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation	272,811	267,731
Accretion of asset retirement obligation	2,063	1,946
Change in value of beneficial interest in perpetual trust	(270)	(3,225)
Net realized and unrealized gains on investments	(544,790)	(115,738)
Amortization of discount on use of contributed property	(99,468)	(100,373)
Amortization of fair value of use of contributed property	111,760	111,759
Contributions restricted for property and equipment	(47,280)	(42,000)
(Increase) decrease in		
Receivables – net	152,576	(252,769)
Inventory – net	(399,917)	326,813
Prepaid expenses and other assets	34,700	(6,274)
Increase (decrease) in		
Accounts payable	(35,201)	(29,504)
Accrued liabilities	69,630	(88,640)
Due to agencies	17,073	66,543
Net cash provided by operating activities	<u>469,127</u>	<u>151,646</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Sales of investments	8,622,720	5,690,349
Purchases of investments	(9,979,093)	(5,633,042)
Purchases of property and equipment	(331,516)	(245,288)
Change in Board designated cash	48,482	12,312
Net cash used by investing activities	<u>(1,639,407)</u>	<u>(175,669)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for investment in property and equipment	47,280	42,000
Net cash provided by financing activities	<u>47,280</u>	<u>42,000</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,123,000)	17,977
CASH AND CASH EQUIVALENTS – Beginning of year	<u>4,091,044</u>	<u>4,073,067</u>
CASH AND CASH EQUIVALENTS – End of year	<u>\$2,968,044</u>	<u>\$4,091,044</u>

See accompanying notes to the financial statements.

HAWAII FOODBANK, INC.

NOTES TO THE FINANCIAL STATEMENTS

**For the Year Ended June 30, 2019
(With Prior Year Comparative Information)**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Activity

Hawaii Foodbank, Inc. (Organization) is a nonprofit organization established on December 3, 1982 under the laws of the State of Hawaii to collect, warehouse, and distribute salvageable food to social agencies that feed individuals in need on Oahu and Kauai, Hawaii. The Organization is a certified member of Feeding America, a nonprofit organization that provides surplus food, employee and technical training, and fund assistance to a nationwide network of food banks.

Basis of Accounting

The Organization reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. Contributions are recorded as without donor restriction or with donor restriction depending on the existence and/or nature of any donor restrictions. Support is reported when pledged and is considered to be available for unrestricted use unless restricted by the donor. Donor restricted support is reported when pledged as an increase in net assets with donor restrictions. When a purpose or time restriction is satisfied or expires, net assets with donor restrictions are reclassified to net assets without donor restrictions. Grants are recognized to the extent of expenditures made in accordance with the related agreements. Expenses are recognized when the related liability is incurred.

Donated services are recognized as contributions if the services create or enhance nonfinancial assets, or require specialized skills that are performed by people with those skills and would otherwise be purchased by the Organization. A substantial number of unpaid volunteers have made contributions of their time to the Organization. The value of this time is not reflected in these financial statements because it did not meet the criteria for recognition.

The Organization allocates its expenses on a functional basis among program and supporting services based on estimates by management. Expenses that can be identified with a specific program or supporting service are charged directly to the program or supporting service using natural expense classifications. Other expenses that are common to several functions are allocated by various bases such as square footage for capital costs, salaries and headcount for labor related costs, and time spent by administrative and management personnel. Expenses related to the operations of the Kauai branch, included in the allocation of functional expenses, totaled \$826,438 and \$501,504 for the years ended June 30, 2019 and 2018, respectively.

Use of Estimates

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates, and it is reasonably possible that such estimates may change within the near term.

HAWAII FOODBANK, INC.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**For the Year Ended June 30, 2019
(With Prior Year Comparative Information)**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Concentrations of Credit Risk

Financial instruments that potentially subject the Organization to credit risk include cash and cash equivalents, receivables, and investments (including board designated funds and beneficial interest in perpetual trust). Cash on deposit with financial institutions exceeded the related federal deposit insurance by approximately \$4,660,500 and \$6,135,500 at June 30, 2019 and 2018, respectively. Management evaluates the credit standings of these financial institutions to ensure that all funds are adequately safeguarded as required by federal regulations. Receivables are unsecured. Such receivables have been adjusted for all known doubtful accounts based on assessments by management of the facts and circumstances related to the individual receivable amounts. The Organization's investments are exposed to various risks, including interest rate, market, and credit risk.

Cash and Cash Equivalents

The Organization considers all highly liquid investments with a maturity of three months or less at the date of purchase to be cash equivalents.

Receivables

Grants, accounts, and other receivables are stated at unpaid balances, less an allowance for doubtful accounts, which was approximately \$3,000 at June 30, 2019 and 2018. The allowance is based on experience and other circumstances, which may affect the ability of agencies to meet their obligations. Accounts receivable are considered doubtful if payments are not received in accordance with the contractual terms. It is the Organization's policy to write off uncollectible accounts receivable when management determines the receivable will not be collected. There were no amounts written off during the years ended June 30, 2019 and 2018.

Contributions receivable are expected to be collected during the next fiscal year. Management analyzes the collectability of the contributions receivable and has adjusted such receivables for all known doubtful accounts of approximately \$11,000 and \$16,000 at June 30, 2019 and 2018, respectively.

Inventory

Inventory, which consists primarily of food, beverages, and other sundry items, is valued based on management's estimate of the average wholesale value per pound of food. Management's estimate is based on the results of a product valuation survey provided by Feeding America. Inventory is adjusted for unsalvageable items of approximately \$49,600 and \$4,400 at June 30, 2019 and 2018, respectively.

HAWAII FOODBANK, INC.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**For the Year Ended June 30, 2019
(With Prior Year Comparative Information)**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Board Designated Funds

The Organization has cash and various investments that have been designated by the Board of Directors (Board) for future building expansion, agency assistance, building and capital equipment, disaster mitigation needs, food purchases, a rainy day fund, and neighbor island emergencies. These investments are reported at fair value. The Board has full discretion over the use of the board designated funds, which remain unrestricted as to use.

Property and Equipment

Property and equipment is stated at cost or, if contributed, at the estimated fair market value at the date of contribution. Depreciation is provided using the straight-line method over estimated useful lives of 30 years for the building; five to 10 years for leasehold improvements; and three to 10 years for vehicles, office furniture and equipment, and warehouse equipment. Property and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amounts may not be recoverable. No impairment was recognized during the years ended June 30, 2019 and 2018. Repairs and maintenance are expensed as incurred. Major improvements in excess of \$1,500 are capitalized.

The Organization capitalizes property and equipment purchased with government grants, although the property is legally owned by the granting agency, if management considers it probable that the Organization will be permitted to keep the property and equipment for the estimated useful life of the assets.

Beneficial Interest in Perpetual Trust

The Organization recognizes charitable trusts, such as perpetual trusts, when a donor makes an initial irrevocable gift to a trust in which the Organization has a beneficial interest. Beneficial interest in perpetual trust represents assets held in a perpetual trust by an independent trustee and represent resources neither in the possession nor under the control of the Organization, although the Organization derives income from the assets of such trust. The Organization's percentage of the beneficial interest in the trust is carried at fair value as reported to the Organization by the trustee.

Due to Agencies

The Organization receives contributions that are restricted for its Grant-In-Aid (GIA) program to assist agencies with paying for the shared maintenance fees. The GIA funds are applied to the accounts of agencies either at the Organization's discretion or by donor designation. At June 30, 2019 and 2018, the due to agencies balance represents amounts to be applied to various agency accounts.

HAWAII FOODBANK, INC.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**For the Year Ended June 30, 2019
(With Prior Year Comparative Information)**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Food Contributions

Food contributions received by the Organization are capitalized as food inventory and recorded as revenue without donor restrictions. Upon distribution, the value of the food is recorded as a decrease in net assets without donor restrictions as food donations to agencies.

Contributions and Exchange Transactions

The Organization receives monies from the community to purchase food to distribute to the public and to cover overhead costs. The Organization evaluates each transaction to determine whether it is a contribution or an exchange transaction. Unconditional promises to give are recognized as contribution revenue in the period in which the promise is received, and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized as contribution revenue when the conditions are substantially met. Revenue from exchange transactions is recognized when earned and expenses are recognized when incurred.

Contributed Merchandise and Other In-Kind Contributions

Contributed merchandise and other in-kind contributions, including equipment, are reflected as contributions at their estimated fair values when received or when an unconditional promise to give has been received by the Organization.

Shared Maintenance Fees

The Organization distributes food to over 200 agencies. Fees may be charged to help cover the costs to receive, warehouse, and distribute the products. Fees are calculated on a per-pound basis, from \$0.18 per pound up to 50% of the cost for purchased foods. These charges are reflected as revenue from shared maintenance fees in the accompanying financial statements.

Hawaii General Excise and Use Tax

The State of Hawaii imposes a general excise tax of 4% on the gross receipts of the Organization from certain sales of merchandise and fundraising within Hawaii, a use tax of 4% on certain imported products and services, plus an additional 0.5% on such gross receipts and imports within the City and County of Honolulu and the County of Kauai (effective from January 1, 2019). Hawaii general excise tax is included in special events – net. Hawaii general excise and use tax amounted to \$59,245 and \$20,524 for the years ended June 30, 2019 and 2018, respectively.

HAWAII FOODBANK, INC.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**For the Year Ended June 30, 2019
(With Prior Year Comparative Information)**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code and is not a private foundation. Accordingly, qualifying contributions to the Organization are tax deductible.

Accounting principles generally accepted in the United States of America require uncertain tax positions to be recognized in the financial statements if they are more likely than not to fail upon regulatory examination. Management has evaluated the Organization's tax positions as of June 30, 2019 and 2018 and for the years then ended by reviewing its income tax returns and conferring with its tax advisors, and determined the Organization had no uncertain tax positions required to be reported in accordance with such generally accepted accounting principles. The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits in progress for any open tax periods.

Adoption of New Accounting Pronouncement

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Under this ASU, there are two classes of net assets – net assets with donor restrictions and net assets without donor restrictions. This ASU also requires reporting of the underwater amounts for donor-restricted endowments with enhanced disclosures; allows for the presentation of cash flows using the indirect or direct method without a reconciliation of the direct method to the indirect method; requires qualitative information on how the organization manages its liquid assets and associated liquidity risks; requires information on the financial statement or in the notes to the financial statements on the availability of the organization's assets to meet cash needs for general expenditures within one year; and requires reporting of expenses by function and nature along with an analysis of such expenses. The Organization implemented this ASU in the year ended June 30, 2019.

NOTE B – LIQUIDITY

The Organization monitors liquidity required to meet its operating needs and other contractual commitments while also striving to maximize the investment returns on its available funds. The Organization has various sources of liquidity available for use, including cash, receivables, and investments. For purposes of analyzing resources available to meet general expenditures over the upcoming 12-month period, the Organization considers all expenditures related to its ongoing activities. In addition to financial assets available to meet general expenditures over the next 12 months, the Organization anticipates collecting sufficient revenue to cover general operating expenditures.

HAWAII FOODBANK, INC.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended June 30, 2019
(With Prior Year Comparative Information)

NOTE B – LIQUIDITY (Continued)

At June 30, 2019 and 2018, the Organization's financial assets and the amounts of those assets that are available within one year of the statement of financial position date to meet general expenditures were as follows:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 2,968,044	\$ 4,091,044
Receivables – net	468,916	621,492
Investments	3,991,051	2,105,539
Board designated investments	10,782,286	10,815,117
Beneficial interest in perpetual trust	222,621	222,351
Endowment for building maintenance	400,000	400,000
Endowment for agency assistance	400,000	400,000
Total financial resources	19,232,918	18,655,543
Total net assets without donor restrictions	(3,499,385)	(3,697,964)
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 15,733,533</u>	<u>\$ 14,957,579</u>

NOTE C – RECEIVABLES

At June 30, 2019 and 2018, receivables consisted of the following:

	<u>2019</u>	<u>2018</u>
Grants receivable	\$ 299,608	\$ 378,869
Contributions receivable	123,478	189,768
Accounts receivable	39,815	49,073
Other receivables	20,015	22,782
Total receivables	482,916	640,492
Allowance for doubtful accounts	(14,000)	(19,000)
Receivables – net	<u>\$ 468,916</u>	<u>\$ 621,492</u>

HAWAII FOODBANK, INC.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended June 30, 2019
(With Prior Year Comparative Information)

NOTE D – INVENTORY

For the years ended June 30, 2019 and 2018, food inventory, net of reserves, transactions were as follows:

	<u>Pounds</u>	<u>Value</u>
Balances at June 30, 2017 – net of reserve	1,182,964	\$ 1,988,093
Food contributions	14,255,208	23,889,101
Food distributions	(12,275,048)	(20,529,879)
Unsalvageable food and valuation adjustment	(2,084,277)	(3,553,692)
Other	<u>(72,457)</u>	<u>(132,343)</u>
Balances at June 30, 2018 – net of reserve	1,006,390	1,661,280
Food contributions	14,801,348	24,157,788
Food distributions	(12,419,474)	(20,381,697)
Unsalvageable food and valuation adjustment	(2,116,920)	(3,492,918)
Other	<u>(67,909)</u>	<u>112,050</u>
Balances at June 30, 2019 – net of reserve	<u>1,203,435</u>	<u>\$ 2,056,503</u>

As of June 30, 2019 and 2018, the Organization had non-food inventory items of \$4,694 and \$0, respectively.

NOTE E – INVESTMENTS AND BOARD DESIGNATED INVESTMENTS

The Organization allocates cash and the fair value of investments between undesignated and board designated net assets without donor restrictions. At June 30, 2019 and 2018, the fair value of total investments held by the Organization were as follows:

	<u>2019</u>	<u>2018</u>
Mutual funds	\$ 5,437,764	\$ 5,226,375
Equity securities	3,517,691	3,134,754
Government obligations	1,916,247	1,761,122
Brokered certificates of deposit	1,801,181	-
Money market funds	<u>346,024</u>	<u>597,973</u>
Total investments	<u>\$13,018,907</u>	<u>\$10,720,224</u>

HAWAII FOODBANK, INC.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**For the Year Ended June 30, 2019
(With Prior Year Comparative Information)**

NOTE E – INVESTMENTS AND BOARD DESIGNATED INVESTMENTS (Continued)

The board designated funds for future building and capital equipment, disaster mitigation needs, food purchases, and emergencies. The Board also designated funds for an agency assistance program. Earnings from the board designated investments are unrestricted. At June 30, 2019 and 2018, the investment and cash balances were allocated as follows:

	<u>2019</u>	<u>2018</u>
Board designated		
Investments	\$ 9,027,856	\$ 8,614,685
Certificates of deposit	757,508	1,155,028
Cash and cash equivalents	996,922	1,045,404
Total board designated	<u>10,782,286</u>	<u>10,815,117</u>
Undesignated		
Investments	<u>3,991,051</u>	<u>2,105,539</u>
Total undesignated	<u>3,991,051</u>	<u>2,105,539</u>
 Total investments	 <u>\$ 14,773,337</u>	 <u>\$ 12,920,656</u>

For the years ended June 30, 2019 and 2018, investment income earned on investments consisted of the following:

	<u>2019</u>	<u>2018</u>
Net realized and unrealized gains	\$ 544,790	\$ 115,738
Interest and dividend income	<u>399,316</u>	<u>327,335</u>
 Total investment income	 <u>\$ 944,106</u>	 <u>\$ 443,073</u>

NOTE F – ENDOWMENTS FOR BUILDING MAINTENANCE AND AGENCY ASSISTANCE

The endowments for building maintenance and agency assistance consist of restricted certificates of deposit (CDs) received from The Harry and Jeanette Weinberg Foundation, which are reported at carrying value. The Organization has access to the interest income generated by the CDs, but not to the principal, which must be invested in perpetuity. Interest income is restricted for the repair and maintenance of the Organization's warehouse and office facility and the agency assistance program which pays the shared maintenance fees of certain food distribution agencies. The CD related to the endowment for building maintenance matures annually in June and the CD related to agency assistance matures annually in February. The agency assistance agreement required that the Organization match the \$200,000 from the grantor for each endowment and maintain the funds in perpetuity. These matching funds are held in cash equivalents.

HAWAII FOODBANK, INC.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**For the Year Ended June 30, 2019
(With Prior Year Comparative Information)**

NOTE G – FAIR VALUE MEASUREMENTS

The established framework for measuring fair value provides a hierarchy that prioritizes the inputs to valuation methodologies used to measure fair value. There are three levels of the fair value hierarchy. Level 1 inputs to the valuation methodologies consist of unadjusted quoted prices for identical assets or liabilities in active markets that the Organization have the ability to access. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability, and inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability. Level 3 inputs are unobservable and significant to the fair value measurement. The fair value measurement level of an asset or liability within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation methodologies used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

At June 30, 2019 and 2018, the fair value measurements reportable by the Organization consisted of investments in mutual funds, equity securities, government obligations, and brokered certificates of deposit valued using quoted market prices (Level 1 measurements); money market funds valued at stated value (Level 1 measurement), U.S. government agency obligations valued using pricing models maximizing the use of observable inputs for similar securities, including yields currently available on comparable securities of issuers with similar credit ratings (Level 2 measurement); and a beneficial interest in a perpetual trust valued by estimating the present value of the future distributions expected to be received, using published life expectancy tables and discount rates (Level 3 measurement).

The methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. The use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

HAWAII FOODBANK, INC.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended June 30, 2019
(With Prior Year Comparative Information)

NOTE G – FAIR VALUE MEASUREMENTS (Continued)

The following sets forth by level, within the fair value hierarchy, investments at fair value as of June 30, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments				
Mutual funds				
Fixed Income	\$ 1,837,230	\$ -	\$ -	\$ 1,837,230
Short-Term Bond	1,092,528	-	-	1,092,528
Short Government	729,405	-	-	729,405
Foreign Market	446,272	-	-	446,272
Commodities	242,781	-	-	242,781
Consumer Defensive	204,232	-	-	204,232
Large Blend	200,228	-	-	200,228
Real Estate	156,060	-	-	156,060
US Fund Health	147,672	-	-	147,672
Large Value	110,550	-	-	110,550
Equity Precious Metals	108,744	-	-	108,744
Long Government	106,248	-	-	106,248
Utilities	55,814	-	-	55,814
Total mutual funds	<u>5,437,764</u>	<u>-</u>	<u>-</u>	<u>5,437,764</u>
Equity securities				
Technology	885,097	-	-	885,097
Consumer Cyclical	547,941	-	-	547,941
Industrials	502,747	-	-	502,747
Financial Services	346,982	-	-	346,982
Real Estate	330,325	-	-	330,325
Healthcare	264,133	-	-	264,133
Consumer Defensive	245,538	-	-	245,538
Basic Materials	163,695	-	-	163,695
Energy	131,827	-	-	131,827
Communication Services	99,406	-	-	99,406
Total equity securities	<u>3,517,691</u>	<u>-</u>	<u>-</u>	<u>3,517,691</u>
Government obligations				
U.S. treasury obligations	713,300	-	-	713,300
U.S. government agencies	-	1,202,947	-	1,202,947
Total government obligations	<u>713,300</u>	<u>1,202,947</u>	<u>-</u>	<u>1,916,247</u>
Brokered certificates of deposit	<u>1,801,181</u>	<u>-</u>	<u>-</u>	<u>1,801,181</u>
Money market fund	<u>346,024</u>	<u>-</u>	<u>-</u>	<u>346,024</u>
Total investments	<u>11,815,960</u>	<u>1,202,947</u>	<u>-</u>	<u>13,018,907</u>
Beneficial interest in perpetual trust	<u>-</u>	<u>-</u>	<u>222,621</u>	<u>222,621</u>
Total investments at fair value	<u>\$ 11,815,960</u>	<u>\$ 1,202,947</u>	<u>\$ 222,621</u>	<u>\$ 13,241,528</u>

HAWAII FOODBANK, INC.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended June 30, 2019
(With Prior Year Comparative Information)

NOTE G – FAIR VALUE MEASUREMENTS (Continued)

The following sets forth by level, within the fair value hierarchy, investments at fair value as of June 30, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments				
Mutual funds				
Fixed Income	\$ 1,703,190	\$ -	\$ -	\$ 1,703,190
Short-Term Bond	1,059,260	-	-	1,059,260
Technology	312,915	-	-	312,915
Diversified Emerging Markets	228,891	-	-	228,891
Short Government	207,258	-	-	207,258
Industrial	204,647	-	-	204,647
High Yield Bond	200,989	-	-	200,989
Financial	186,449	-	-	186,449
Commodities	181,493	-	-	181,493
Foreign Market	160,421	-	-	160,421
Equity Energy	140,012	-	-	140,012
Consumer Cyclical	133,455	-	-	133,455
Real Estate	107,781	-	-	107,781
Large Value	105,273	-	-	105,273
Natural Resources	101,433	-	-	101,433
Other	192,908	-	-	192,908
Total mutual funds	<u>5,226,375</u>	<u>-</u>	<u>-</u>	<u>5,226,375</u>
Equity securities				
Technology	682,498	-	-	682,498
Consumer goods	666,684	-	-	666,684
Industrial goods	619,899	-	-	619,899
Financial	464,054	-	-	464,054
Utilities and energy	232,972	-	-	232,972
Healthcare	205,276	-	-	205,276
Services	184,577	-	-	184,577
Basic materials	78,794	-	-	78,794
Total equity securities	<u>3,134,754</u>	<u>-</u>	<u>-</u>	<u>3,134,754</u>
Government obligations				
U.S. treasury obligations	627,509	-	-	627,509
U.S. government agencies	-	1,133,613	-	1,133,613
Total government obligations	<u>627,509</u>	<u>1,133,613</u>	<u>-</u>	<u>1,761,122</u>
Money market fund	597,973	-	-	597,973
Total investments	<u>9,586,611</u>	<u>1,133,613</u>	<u>-</u>	<u>10,720,224</u>
Beneficial interest in perpetual trust	<u>-</u>	<u>-</u>	<u>222,351</u>	<u>222,351</u>
Total investments at fair value	<u>\$9,586,611</u>	<u>\$1,133,613</u>	<u>\$222,351</u>	<u>\$10,942,575</u>

HAWAII FOODBANK, INC.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended June 30, 2019
(With Prior Year Comparative Information)

NOTE G – FAIR VALUE MEASUREMENTS (Continued)

The reconciliation of the beginning and ending balances of the fair value measurement using significant unobservable inputs (Level 3) is as follows:

Balance at June 30, 2017	\$ 219,126
Sales and distributions	(18,703)
Purchases	15,858
Realized and unrealized gains, net	<u>6,070</u>
Balance at June 30, 2018	222,351
Sales and distributions	(13,050)
Purchases	6,255
Realized and unrealized gains, net	<u>7,065</u>
Balance at June 30, 2019	<u>\$ 222,621</u>

There were no transfers between levels of the fair value hierarchy and valuation techniques utilized to determine fair value were consistently applied during the years ended June 30, 2019 and 2018.

NOTE H – PROPERTY AND EQUIPMENT

At June 30, 2019 and 2018, property and equipment consisted of the following:

	<u>2019</u>	<u>2018</u>
Building	\$ 2,262,223	\$ 2,262,223
Building Phase II	2,372,466	2,372,466
Leasehold improvements – Kauai	170,509	170,509
Vehicles	1,222,888	1,229,154
Office furniture and equipment	446,561	353,590
Warehouse equipment	380,597	301,627
Construction in progress	<u>124,382</u>	<u>-</u>
Total property and equipment	6,979,626	6,689,569
Accumulated depreciation	<u>(4,745,881)</u>	<u>(4,514,529)</u>
Property and equipment without contributed property	2,233,745	2,175,040
Contributed use of property – net	<u>1,290,112</u>	<u>1,302,404</u>
Property and equipment – net	<u>\$ 3,523,857</u>	<u>\$ 3,477,444</u>

HAWAII FOODBANK, INC.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**For the Year Ended June 30, 2019
(With Prior Year Comparative Information)**

NOTE I – NET ASSETS WITH DONOR RESTRICTIONS

At June 30, 2019 and 2018, net assets with donor restrictions for programs consisted of the following:

	<u>2019</u>	<u>2018</u>
Net assets with donor restrictions for programs		
Contributed use of property	\$ 1,290,112	\$ 1,302,404
CDBG Grant	850,000	906,667
Aloha United Way	110,086	171,589
Kauai Emergency Relief	17,539	102,657
Vehicle acquisition	94,780	57,500
Oahu Emergency Relief	25,718	24,357
Food purchases	32,204	28,762
Kauai United Way	13,392	18,180
Other	<u>42,933</u>	<u>63,497</u>
Net assets with donor restrictions for programs	<u>\$ 2,476,764</u>	<u>\$ 2,675,613</u>

At June 30, 2019 and 2018, net assets with donor restrictions for endowments consisted of the following:

	<u>2019</u>	<u>2018</u>
Net assets with donor restrictions for endowments		
The Harry and Jeanette Weinberg Foundation	\$ 600,000	\$ 600,000
Beneficial interest in perpetual trust	222,621	222,351
Funds designated for matching grant	<u>200,000</u>	<u>200,000</u>
Net assets with donor restrictions for endowments	<u>\$ 1,022,621</u>	<u>\$ 1,022,351</u>

NOTE J – ENDOWMENTS

The Organization is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). It is the policy of the Organization to preserve the original gift of donor-restricted endowment funds as net assets with donor restrictions, absent explicit donor stipulations to the contrary. Unless otherwise stated, other donor-restricted gifts are classified as net assets with donor restrictions. From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, deficiencies of this nature are reported in net assets with donor restrictions (none for the years ended June 30, 2019 and 2018).

HAWAII FOODBANK, INC.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended June 30, 2019
(With Prior Year Comparative Information)

NOTE J – ENDOWMENTS (Continued)

Changes in endowment net assets for the years ended June 30, 2019 and 2018 are as follows:

	<u>Without Donor Restrictions</u>	<u>Donor Restricted for Programs</u>	<u>Donor Restricted for Endowments</u>	<u>Total</u>
Balance at June 30, 2017	\$ -	\$ 6,885	\$ 1,019,126	\$ 1,026,011
Change in investment value	-	13,253	3,225	16,478
Appropriation of endowment earnings for expenditure	14,789	(14,789)	-	-
Expenditure of endowment earnings	<u>(14,789)</u>	<u>-</u>	<u>-</u>	<u>(14,789)</u>
Balance at June 30, 2018	-	5,349	1,022,351	1,027,700
Change in investment value	-	6,988	270	7,258
Appropriation of endowment earnings for expenditure	4,480	(4,480)	-	-
Expenditure of endowment earnings	<u>(4,480)</u>	<u>-</u>	<u>-</u>	<u>(4,480)</u>
Balance at June 30, 2019	<u>\$ -</u>	<u>\$ 7,857</u>	<u>\$ 1,022,621</u>	<u>\$ 1,030,478</u>

NOTE K – LEASES

The Organization's warehouse and office facility is located on land leased from the State of Hawaii under a 55 year lease that expires in 2047. The lease provides that rent will be adjusted to 20% of the prevailing fair market lease rent every ten years.

The Organization recorded the cost of the lease in property, plant, and equipment at the fair rental value, which is amortized over the lease term and is recorded as occupancy expense in the statement of functional expenses. The Organization also recorded a discount of the fair value of the lease rent at a discount rate of 7.67%. The amortization of the discount is recorded as a contribution in the statement of activities.

HAWAII FOODBANK, INC.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**For the Year Ended June 30, 2019
(With Prior Year Comparative Information)**

NOTE K – LEASES (Continued)

At June 30, 2019 and 2018, the Organization's contributed use of property was as follows:

	<u>2019</u>	<u>2018</u>
Fair value of lease rent	\$5,029,200	\$5,029,200
Accumulated amortization of lease rent	<u>(1,862,666)</u>	<u>(1,750,906)</u>
Net fair value of lease rent	<u>3,166,534</u>	<u>3,278,294</u>
Discount on lease rent	(3,609,778)	(3,609,778)
Accumulated amortization of discount	<u>1,733,356</u>	<u>1,633,888</u>
Net discount on lease rent	<u>(1,876,422)</u>	<u>(1,975,890)</u>
Contributed use of property – net	<u>\$1,290,112</u>	<u>\$1,302,404</u>

The Organization also leases a warehouse on Kauai. The initial term of the lease expired in August 2015. The Organization exercised its option to renew the lease, which expires in October 2020.

The Organization also leases office equipment that will expire in June 2021. Office equipment and space rent for the years ended June 30, 2019 and 2018 were approximately \$123,000 and \$128,000, respectively. At June 30, 2019, the future minimum operating lease payments were as follows:

Years Ending June 30th	
2020	\$ 128,100
2021	\$ 84,400
2022	\$ 53,900
2023	\$ 52,700
2024	\$ 51,500
Thereafter	\$1,184,400

HAWAII FOODBANK, INC.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**For the Year Ended June 30, 2019
(With Prior Year Comparative Information)**

NOTE L – SPECIAL EVENTS

Revenue and direct costs from special events held during the years ended June 30, 2019 and 2018 were as follows:

	<u>2019</u>	<u>2018</u>
Special events revenue		
Great Chefs event	\$ 126,717	\$ 132,267
Golf tournament	64,801	65,692
Total revenue	<u>191,518</u>	<u>197,959</u>
Direct costs of the special events	<u>(61,234)</u>	<u>(58,848)</u>
Special events – net	<u>\$ 130,284</u>	<u>\$ 139,111</u>

NOTE M – RETIREMENT PLAN

The Organization established a defined contribution plan under section 401(k) under the Internal Revenue Code (Plan) with an effective date of January 2018, that became operational in October 2018. The existing simplified employee pension (SEP) plan was terminated in November 2018. Employees are eligible to participate in the Plan after one year of service and if they work at least 1,000 hours a year. Participating employees may make voluntary contributions to the Plan. The Organization contributes 3% of an eligible participant's compensation, as defined, to the Plan. Total contributions to the Plan and SEP approximated \$30,000 and \$54,000 for the years ended June 30, 2019 and 2018, respectively.

NOTE N – COMMITMENTS AND CONTINGENCIES

On June 15, 2016, the Organization entered into a power purchase agreement with an initial term of 25 years for design, construction, installation, operation, and maintenance of a solar power generation system (System) on the Organization's premises, and for purchase of the electric energy generated by the System. The rate per KWH is \$0.0145.

Revenue and support is derived primarily from federal, State of Hawaii, and private grants, the loss of which could have a material adverse effect on the Organization. Amounts received from government grants and contracts are subject to audit and adjustment by various government agencies. Any disallowed claim, including amounts already collected, may constitute a liability. Management expects such amounts, if any, would not be material to the financial statements.

The Organization may be subject to legal proceedings, claims, or litigation arising in the ordinary course of business for which it may seek the advice of legal counsel. Management estimates that the cost to resolve such matters, if any, would not be material to the financial statements. However, it is reasonably possible that such estimates may change within the near term.

HAWAII FOODBANK, INC.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**For the Year Ended June 30, 2019
(With Prior Year Comparative Information)**

NOTE N – COMMITMENTS AND CONTINGENCIES (Continued)

The Organization operates in the State of Hawaii. Local, national, and international events (such as COVID-19) can have severe, adverse effects on economic conditions in Hawaii. These financial statements do not include the adjustments that would result if the Organization were to account for future losses or asset impairments, as the effects on the financial statements of the Organization from such changes in economic conditions are not presently determinable.

NOTE O – CONFLICT OF INTEREST POLICY

The Organization's Board of Directors, committee members, and volunteers are from the financial, food wholesale, retail, and distribution industries. These individuals provide valuable assistance to the Organization in the development of policies and programs and in the evaluation of awards and grants. The Organization has a conflict-of-interest policy whereby Board and committee members must advise the Board of Directors of any direct or indirect interest in any transaction or relationship with the Organization and may not participate in decisions regarding any action, which may affect their individual, professional, or business interest.

NOTE P – FINANCIAL STATEMENT PRESENTATION

The financial statements include certain prior year comparative information that is not in sufficient detail to constitute a complete presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the financial statements of the Organization as of and for the year ended June 30, 2018, from which the information was derived.

Certain amounts in the prior year comparative information have been reclassified to conform to the current year presentation. These reclassifications have no effect on previously reported changes in net assets.

NOTE Q – SUBSEQUENT EVENTS

Management has evaluated subsequent events through April 2, 2020, which is the date the financial statements were available to be issued, and determined that the Organization did not have any subsequent events requiring adjustment to the financial statements or disclosure in the notes to the financial statements, except as noted below.

The global COVID-19 outbreak has caused business disruption from government-mandated and voluntary closings or reductions in services for all industries and substantially reduced the fair value of investments in marketable securities. While the disruption is currently expected to be temporary, there is considerable uncertainty as to the duration of the negative economic impact from such disruptions. The Organization expects this matter to negatively impact its operating results; however, the related financial impact cannot be reasonably estimated at this time.