

HAWAII FOODBANK, INC.

FINANCIAL STATEMENTS
As of and for the Year Ended June 30, 2020
With Prior Year Comparative Information
And Independent Auditor's Report



CW Associates
A Hawaii Certified Public Accounting Corporation



CW Associates

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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, 2020, 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 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.

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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

Emphasis of Matter

As discussed in Note A to the financial statements, during the year ended June 30, 2020, the Organization adopted Accounting Standards Update (ASU) No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* and ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. 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, 2019, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 2, 2020. In our opinion, the accompanying prior year comparative information is consistent, in all material respects, with the audited financial statements from which it has been derived.

CW ASSOCIATES, CPAs

Honolulu, Hawaii
May 21, 2021

HAWAII FOODBANK, INC.

STATEMENT OF FINANCIAL POSITION

**As of June 30, 2020
(With Prior Year Comparative Information)**

	<u>2020</u>	<u>2019</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,877,223	\$ 2,968,044
Receivables – net	992,847	468,916
Investments	5,051,623	3,991,051
Inventory – net	1,497,400	2,061,197
Prepaid expenses and other assets	276,695	36,555
Total current assets	<u>11,695,788</u>	<u>9,525,763</u>
NONCURRENT ASSETS		
Cash and cash equivalents – board designated	978,846	996,922
Investments – board designated	9,803,440	9,785,364
Property and equipment – net	5,762,406	3,523,857
Beneficial interest in perpetual trust	216,165	222,621
Endowment for building maintenance	400,000	400,000
Endowment for agency assistance	400,000	400,000
Total noncurrent assets	<u>17,560,857</u>	<u>15,328,764</u>
TOTAL ASSETS	<u>\$29,256,645</u>	<u>\$24,854,527</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 545,090	\$ 24,490
Accrued liabilities	727,137	423,583
Due to agencies	454,538	595,171
Deferred revenue	170,999	-
Total current liabilities	<u>1,897,764</u>	<u>1,043,244</u>
ASSET RETIREMENT OBLIGATION	<u>38,630</u>	<u>36,443</u>
TOTAL LIABILITIES	<u>1,936,394</u>	<u>1,079,687</u>
NET ASSETS		
Net assets without donor restrictions		
Undesignated	9,487,682	8,109,424
Board designated	10,782,286	10,782,286
Invested in property and equipment	3,692,229	1,383,745
Total net assets without donor restrictions	<u>23,962,197</u>	<u>20,275,455</u>
Net assets with donor restrictions	<u>3,358,054</u>	<u>3,499,385</u>
Total net assets	<u>27,320,251</u>	<u>23,774,840</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$29,256,645</u>	<u>\$24,854,527</u>

See accompanying notes to the financial statements.

HAWAII FOODBANK, INC.

STATEMENT OF ACTIVITIES

**For the Year Ended June 30, 2020
(With Prior Year Comparative Information)**

	<u>2020</u>	<u>2019</u>
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
Revenue and support		
Food contributions	\$ 33,552,663	\$ 24,157,787
Contributions from the public without donor restrictions	8,802,752	3,557,876
Net assets released from donor restrictions	3,081,670	1,008,875
Public and private grants without donor restrictions	3,050,633	1,791,439
Investment income – net	530,874	854,074
Shared maintenance fees	473,173	602,738
Special events – net	138,562	130,284
In-kind donations	36,987	-
Loss on sale of asset	(127,224)	-
Other income	31,684	6,652
Total revenue and support	<u>49,571,774</u>	<u>32,109,725</u>
Expenses		
Program services	<u>43,580,294</u>	<u>28,953,552</u>
Supporting services		
Management and general	1,175,102	968,693
Fundraising and development	1,129,636	1,053,461
Total supporting services	<u>2,304,738</u>	<u>2,022,154</u>
Total expenses	<u>45,885,032</u>	<u>30,975,706</u>
Increase in net assets without donor restrictions	<u>3,686,742</u>	<u>1,134,019</u>
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS		
Contributions and grants with donor restrictions	2,931,008	795,039
Interest income – net	15,787	14,987
Change in value of charitable trust	(6,456)	270
Net assets released from donor restrictions	<u>(3,081,670)</u>	<u>(1,008,875)</u>
Decrease in net assets with donor restrictions	<u>(141,331)</u>	<u>(198,579)</u>
INCREASE IN NET ASSETS	3,545,411	935,440
NET ASSETS – Beginning of year	<u>23,774,840</u>	<u>22,839,400</u>
NET ASSETS – End of year	<u>\$ 27,320,251</u>	<u>\$ 23,774,840</u>

See accompanying notes to the financial statements.

HAWAII FOODBANK, INC.

STATEMENT OF FUNCTIONAL EXPENSES

**For the Year Ended June 30, 2020
(With Prior Year Comparative Information)**

	<u>Program Services</u>	<u>Supporting Services</u>			<u>2020 Total</u>	<u>2019 Total</u>
		<u>Management and General</u>	<u>Fundraising</u>	<u>Total Supporting Services</u>		
Food donations to agencies	\$ 34,385,274	\$ -	\$ -	\$ -	\$ 34,385,274	\$ 24,111,358
Agency and neighbor island support	5,288,668	7,028	7,575	14,603	5,303,271	1,707,929
Salaries and wages	1,919,700	513,116	625,808	1,138,924	3,058,624	2,548,283
Payroll taxes, employee benefits and training	534,195	156,532	131,058	287,590	821,785	698,726
Occupancy	362,470	91,482	48,120	139,602	502,072	464,303
Transportation	394,457	642	771	1,413	395,870	241,539
Professional fees	116,257	180,657	60,083	240,740	356,997	130,964
Depreciation	262,468	24,976	24,976	49,952	312,420	272,811
Equipment, supplies, and miscellaneous	162,531	73,423	27,153	100,576	263,107	341,255
Dues, subscriptions, membership fees, and meetings	23,450	116,936	41,318	158,254	181,704	97,195
Printing and bulk mail costs	1,111	7,476	145,751	153,227	154,338	149,050
Fundraising costs	50,885	-	69,309	69,309	120,194	232,258
Volunteer expenses	51,030	125	3,414	3,539	54,569	5,600
Insurance	28,447	2,709	2,709	5,418	33,865	35,669
Total expense by function	<u>43,580,943</u>	<u>1,175,102</u>	<u>1,188,045</u>	<u>2,363,147</u>	<u>45,944,090</u>	<u>31,036,940</u>
Fundraising event direct costs net in special events revenue	<u>(649)</u>	<u>-</u>	<u>(58,409)</u>	<u>(58,409)</u>	<u>(59,058)</u>	<u>(61,234)</u>
Total expenses	<u>\$ 43,580,294</u>	<u>\$ 1,175,102</u>	<u>\$ 1,129,636</u>	<u>\$ 2,304,738</u>	<u>\$ 45,885,032</u>	<u>\$ 30,975,706</u>

See accompanying notes to the financial statements.

HAWAII FOODBANK, INC.

STATEMENT OF CASH FLOWS

**For the Year Ended June 30, 2020
(With Prior Year Comparative Information)**

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 3,545,411	\$ 935,440
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation	312,420	272,811
Loss on sale of property and equipment	127,224	-
Accretion of asset retirement obligation	2,187	2,063
Change in value of beneficial interest in perpetual trust	6,456	(270)
Net realized and unrealized gains on investments	(232,911)	(544,790)
Amortization of discount on use of contributed property	(98,492)	(99,468)
Amortization of fair value of use of contributed property	111,760	111,760
Contributions restricted for property and equipment	-	(47,280)
(Increase) decrease in		
Receivables – net	(523,931)	152,576
Inventory – net	563,797	(399,917)
Prepaid expenses and other assets	(240,140)	34,700
Increase (decrease) in		
Accounts payable	520,600	(35,201)
Accrued liabilities	303,554	69,630
Due to agencies	(140,633)	17,073
Deferred revenue	170,999	-
Net cash provided by operating activities	<u>4,428,301</u>	<u>469,127</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Sales of investments	13,803,475	8,622,720
Purchases of investments	(14,649,212)	(9,979,093)
Purchases of property and equipment	(2,691,461)	(331,516)
Net cash used by investing activities	<u>(3,537,198)</u>	<u>(1,687,889)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for investment in property and equipment	-	47,280
Net cash provided by financing activities	<u>-</u>	<u>47,280</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	891,103	(1,171,482)
CASH AND CASH EQUIVALENTS AND BOARD DESIGNATED CASH AND CASH EQUIVALENTS – Beginning of year		
	<u>3,964,966</u>	<u>5,136,448</u>
CASH AND CASH EQUIVALENTS AND BOARD DESIGNATED CASH AND CASH EQUIVALENTS – End of year		
	<u>\$ 4,856,069</u>	<u>\$ 3,964,966</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Noncash operating and investing activity –		
Contribution of marketable securities	\$ 39,000	\$ -
Noncash investing activity –		
Allocation of board designated investment to board designated cash and cash equivalents	\$ 18,076	\$ 48,482

See accompanying notes to the financial statements.

HAWAII FOODBANK, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2020 (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.

During the last quarter of the fiscal year 2020, the COVID-19 pandemic created an increase in activity for the Organization, which included increased food and monetary donations and grant funding to provide food to individuals and families with food insecurities due to the pandemic.

Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), which require the Organization to report information regarding its financial position and activities according to the following net asset classifications:

Net Assets without Donor Restrictions consist of net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management and board of directors.

Net Assets with Donor Restrictions consist of net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity (\$1,016,165 and \$1,022,621 in 2020 and 2019, respectively).

The financial statements include certain prior year comparative information that is not in sufficient detail to constitute a complete presentation in accordance with U.S. GAAP. Accordingly, such information should be read in conjunction with the financial statements of the Organization as of and for the year ended June 30, 2019, 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.

HAWAII FOODBANK, INC.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**For the Year Ended June 30, 2020
(With Prior Year Comparative Information)**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in accordance with U.S. GAAP requires 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 year. Actual results could differ from those estimates, it is reasonably possible that such estimates may change within the near term, and such differences could be material to the financial statements.

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.

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 investments and beneficial interest in perpetual trust). Cash on deposit with financial institutions exceeded the related federal deposit insurance by approximately \$4,834,500 and \$4,660,500 at June 30, 2020 and 2019, respectively. Management evaluates the credit standings of these financial institutions to ensure that all funds are adequately safeguarded.

Receivables consist of grants, agency, contributions, and other receivable balances. Grants, agency, and other receivables are stated at unpaid balances, less an allowance for doubtful accounts, which was approximately \$3,000 at June 30, 2020 and 2019. The allowance is based on experience and other circumstances, which may affect the ability of agencies to meet their obligations. Such receivables are considered doubtful if payments are not received in accordance with the contractual terms. Contributions receivable are also stated at unpaid balances, less an allowance for doubtful accounts, which was approximately \$12,600 and \$11,000 at June 30, 2020 and 2019, respectively. Contributions receivable are determined to be collectible or uncollectible based on assessments by management of the facts and circumstances related to the individual accounts, including historical experience, an assessment of economic conditions, and a review of subsequent collections. 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, 2020 and 2019.

The Organization's investments are exposed to various risks, including interest rate, market, and credit risk.

HAWAII FOODBANK, INC.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended June 30, 2020 (With Prior Year Comparative Information)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

Investments are stated at fair value. Net realized and unrealized gains and losses, determined using the specific cost of the investments, are included in investment income without donor restrictions and with donor restrictions. Investments are fully insured by federal and private insurance as represented by the custodian. Future changes in market prices may make such investments less valuable.

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 for food received from the U.S. Department of Agriculture (USDA) is based on the most recently published cost per pound price in the USDA donated foods catalog. Management's estimate for food received from non-USDA sources is based on the results of a product valuation survey provided by Feeding America. Inventory is adjusted for unsalvageable items of approximately \$15,300 and \$49,600 at June 30, 2020 and 2019, respectively.

Board Designated Cash and Cash Equivalents and Investments

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. Such designations may be changed by the Board at any time.

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, 2020 and 2019. 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.

HAWAII FOODBANK, INC.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended June 30, 2020 (With Prior Year Comparative Information)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2020 and 2019, the due to agencies balance represents amounts to be applied to various agency accounts.

Revenue and Expense Recognition

Revenue is recognized when the required goods and services are provided to the customer. Amounts received prior to the provision of the goods and services are reported as deferred revenue. Expenses are recorded when the related liability is incurred. 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 \$1,011,730 and \$826,438 for the years ended June 30, 2020 and 2019, respectively.

Food Contributions

Food contributions received by the Organization are capitalized as food inventory and recorded as revenue without donor restrictions. Food contributions received from the USDA are valued based on a weighted average of the most recently published cost-per-pound priced in the USDA donated foods catalog and the cost per pound from the prior year. The average price per pound for food contributions received from the USDA were \$1.51 and \$1.52 for the years ended June 30, 2020 and 2019, respectively.

Food contributions from non-USDA sources are computed by the average price per pound based on the most recent two periods of the Feeding America Product Valuation Methodology Survey. The average price per pound for food non-USDA contributions were \$1.68 and \$1.62 for the years ended June 30, 2020 and 2019, respectively.

Upon distribution, the value of the food is recorded as a decrease in net assets without donor restrictions as food donations to agencies.

HAWAII FOODBANK, INC.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**For the Year Ended June 30, 2020
(With Prior Year Comparative Information)**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Grants and Contracts

The Organization recognizes grants and contracts as either contributions or exchange transactions depending on whether the transaction is reciprocal or nonreciprocal. The majority of the Organization's grants and contracts are cost-reimbursable grants and contracts, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenditures. Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with the grant or contract provisions. Amounts received prior to incurring the qualifying expenditures are reported as refundable advances in the statements of financial position (none in 2020 and 2019). Qualifying expenditures that have been incurred, but for which reimbursement has not yet been received, are reported in the statement of financial position as receivables (\$701,193 in 2020 and \$299,608 in 2019). Amounts received from such grants and contracts for which the conditions and any restrictions are met in the same reporting period are reported as net assets without donor restrictions.

The Organization was awarded cost-reimbursable grants and contracts of approximately \$548,020 that have not been recognized as of June 30, 2020 because the qualifying expenditures have not yet been incurred.

Donor Contributions

The Organization recognizes contributions when cash, securities, or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give, those with a measurable performance or other barrier and a right of return, are not recognized until the conditions on which they depend have been met.

Contributions received are recorded as increases in net assets without donor restrictions or net assets with donor restrictions depending on the existence and/or nature of any donor restrictions. Support is considered to be available for unrestricted use unless restricted by the donor. Donor restricted support is reported as an increase net assets with donor restrictions. When a restriction is satisfied or expires, net assets with donor restrictions are released to net assets without donor restrictions.

In-Kind Donations and Donated Services

In-kind donations, including marketable securities, are reflected as contributions at their estimated fair values when received or when an unconditional promise to give has been received by the Organization.

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.

HAWAII FOODBANK, INC.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended June 30, 2020 (With Prior Year Comparative Information)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 \$56,452 and \$59,245 for the years ended June 30, 2020 and 2019, respectively.

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.

U.S. GAAP requires 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, 2020 and 2019 and for the years then ended, and determined the Organization had no uncertain tax positions required to be reported in accordance with U.S. GAAP. 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 Pronouncements

In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU provides a framework for determining when a transaction should be accounted for as a contribution or as an exchange transaction. This ASU also requires an entity to determine whether a contribution is conditional on the basis of whether an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets. The Organization implemented this ASU during the year ended June 30, 2020 using the modified prospective transition method. The cumulative effect of implementing this ASU was not significant to the Organization's financial statements as of July 1, 2019 and for the year ended June 30, 2020.

HAWAII FOODBANK, INC.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**For the Year Ended June 30, 2020
(With Prior Year Comparative Information)**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of New Accounting Pronouncements

In November 2016, FASB issued ASU No. 2016-08, *Statement of Cash Flows (Topic 230): Restricted Cash*. This ASU requires that the statement of cash flows includes all cash and cash equivalents, whether the cash is unrestricted or restricted. The Organization implemented this ASU during the year ended June 30, 2020. The implementation of this ASU during the year ended June 30, 2020 resulted in the inclusion of restricted cash in the accompanying statement of cash flows.

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. 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.

At June 30, 2020 and 2019, 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>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 3,877,223	\$ 2,968,044
Receivables – net	992,847	468,916
Investments	5,051,623	3,991,051
Cash and cash equivalents – board designated	978,846	996,922
Investments – board designated	9,803,440	9,785,364
Beneficial interest in perpetual trust	216,165	222,621
Endowment for building maintenance	400,000	400,000
Endowment for agency assistance	400,000	400,000
Total financial assets	21,720,144	19,232,918
Total net assets with donor restrictions	<u>(3,358,054)</u>	<u>(3,499,385)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 18,362,090</u>	<u>\$ 15,733,533</u>

HAWAII FOODBANK, INC.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended June 30, 2020
(With Prior Year Comparative Information)

NOTE C – CASH AND BOARD DESIGNATED CASH

The following provides a reconciliation of cash and cash equivalents and board designated cash and cash equivalents reported within the statement of financial position that total the amounts shown in the statement of cash flows:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 3,877,223	\$ 2,968,044
Cash and cash equivalents – board designated investments	<u>978,846</u>	<u>996,922</u>
Cash and cash equivalents and board designated cash and cash equivalents	<u>\$ 4,856,069</u>	<u>\$ 3,964,966</u>

NOTE D – RECEIVABLES

At June 30, 2020 and 2019, receivables consisted of the following:

	<u>2020</u>	<u>2019</u>
Grants receivable	\$ 701,193	\$ 299,608
Accounts receivable	152,891	39,815
Contributions receivable	144,821	123,478
Other receivables	<u>9,542</u>	<u>20,015</u>
Total receivables	1,008,447	482,916
Allowance for doubtful accounts	<u>(15,600)</u>	<u>(14,000)</u>
Receivables – net	<u>\$ 992,847</u>	<u>\$ 468,916</u>

HAWAII FOODBANK, INC.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**For the Year Ended June 30, 2020
(With Prior Year Comparative Information)**

NOTE E – INVENTORY

For the years ended June 30, 2020 and 2019, food inventory transactions, net of reserves, were as follows:

	<u>Pounds</u>	<u>Value</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	1,203,435	2,056,503
Food contributions and purchases	20,276,339	33,552,663
Food distributions	(15,134,164)	(24,987,564)
Unsalvageable food and valuation adjustment	(3,682,496)	(6,186,593)
Other	<u>(1,748,577)</u>	<u>(2,937,609)</u>
Balances at June 30, 2020 – net of reserve	<u>914,537</u>	<u>\$ 1,497,400</u>

As of June 30, 2020 and 2019, the Organization had non-food inventory items of \$0 and \$4,694, respectively.

NOTE F – 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, 2020 and 2019, the fair value of total investments held by the Organization were as follows:

	<u>2020</u>	<u>2019</u>
Mutual funds	\$ 6,300,751	\$ 5,437,764
Equity securities	3,466,897	3,517,691
Government obligations	2,604,767	1,916,247
Brokered certificates of deposit	-	1,801,181
Money market funds	1,974,954	346,024
Certificates of deposit	<u>507,694</u>	<u>757,508</u>
Total investments	<u>\$ 14,855,063</u>	<u>\$ 13,776,415</u>

HAWAII FOODBANK, INC.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**For the Year Ended June 30, 2020
(With Prior Year Comparative Information)**

NOTE F – 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, 2020 and 2019, the investment and cash balances were allocated as follows:

	<u>2020</u>	<u>2019</u>
Board designated		
Investments	\$ 9,295,746	\$ 9,027,856
Certificates of deposit	507,694	757,508
Cash and cash equivalents	978,846	996,922
Total board designated	<u>10,782,286</u>	<u>10,782,286</u>
Undesignated		
Investments	<u>5,051,623</u>	<u>3,991,051</u>
Total undesignated	<u>5,051,623</u>	<u>3,991,051</u>
 Total fund assets	 <u>\$ 15,833,909</u>	 <u>\$ 14,773,337</u>

For the years ended June 30, 2020 and 2019, investment income earned on investments consisted of the following:

	<u>2020</u>	<u>2019</u>
Net realized and unrealized gains	\$ 232,911	\$ 544,790
Interest and dividend income	392,436	399,316
Investment fees	<u>(94,473)</u>	<u>(90,032)</u>
 Total investment income – net	 <u>\$ 530,874</u>	 <u>\$ 854,074</u>

NOTE G – 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 and cash equivalents.

HAWAII FOODBANK, INC.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**For the Year Ended June 30, 2020
(With Prior Year Comparative Information)**

NOTE H – FAIR VALUE MEASUREMENTS

U.S. GAAP 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, 2020 and 2019, the fair value measurements reportable by the Organization consisted of investments in mutual funds, equity securities, U.S. treasury obligations, and brokered certificates of deposit valued using quoted market prices (Level 1 measurements); money market funds and certificates of deposit 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, 2020
(With Prior Year Comparative Information)

NOTE H – FAIR VALUE MEASUREMENTS (Continued)

The following sets forth by level, within the fair value hierarchy, investments at fair value as of June 30, 2020:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments				
Mutual funds				
Fixed income	\$4,635,456	\$ -	\$ -	\$ 4,635,456
Foreign market	467,394	-	-	467,394
Large blend	320,085	-	-	320,085
Commodities	280,978	-	-	280,978
Equity precious metals	164,127	-	-	164,127
Large value	100,316	-	-	100,316
Other	332,395	-	-	332,395
Total mutual funds	<u>6,300,751</u>	<u>-</u>	<u>-</u>	<u>6,300,751</u>
Equity securities				
Technology	1,045,956	-	-	1,045,956
Consumer cyclical	448,784	-	-	448,784
Industrials	432,540	-	-	432,540
Financial services	350,372	-	-	350,372
Consumer defensive	283,766	-	-	283,766
Healthcare	238,133	-	-	238,133
Real estate	233,282	-	-	233,282
Basic materials	161,421	-	-	161,421
Chemicals	120,247	-	-	120,247
Other	152,396	-	-	152,396
Total equity securities	<u>3,466,897</u>	<u>-</u>	<u>-</u>	<u>3,466,897</u>
U.S. government obligations				
U.S. government agencies	-	1,988,818	-	1,988,818
U.S. treasury obligations	615,949	-	-	615,949
Total government obligations	<u>615,949</u>	<u>1,988,818</u>	<u>-</u>	<u>2,604,767</u>
Money market funds	<u>1,974,954</u>	<u>-</u>	<u>-</u>	<u>1,974,954</u>
Certificates of deposit	<u>507,694</u>	<u>-</u>	<u>-</u>	<u>507,694</u>
Total investments	<u>12,866,245</u>	<u>1,988,818</u>	<u>-</u>	<u>14,855,063</u>
Beneficial interest in perpetual trust	<u>-</u>	<u>-</u>	<u>216,165</u>	<u>216,165</u>
Total investments at fair value	<u>\$ 12,866,245</u>	<u>\$ 1,988,818</u>	<u>\$ 216,165</u>	<u>\$ 15,071,228</u>

HAWAII FOODBANK, INC.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended June 30, 2020
(With Prior Year Comparative Information)

NOTE H – 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	\$3,765,411	\$ -	\$ -	\$ 3,765,411
Foreign market	446,272	-	-	446,272
Large blend	200,228	-	-	200,228
Commodities	242,781	-	-	242,781
Equity precious metals	108,744	-	-	108,744
Large value	110,550	-	-	110,550
Other	563,778	-	-	563,778
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
Consumer defensive	245,538	-	-	245,538
Healthcare	264,133	-	-	264,133
Real estate	330,325	-	-	330,325
Basic materials	163,695	-	-	163,695
Other	231,233	-	-	231,233
Total equity securities	<u>3,517,691</u>	<u>-</u>	<u>-</u>	<u>3,517,691</u>
U.S. government obligations				
U.S. government agencies	-	1,202,947	-	1,202,947
U.S. treasury obligations	713,300	-	-	713,300
Total government obligations	<u>713,300</u>	<u>1,202,947</u>	<u>-</u>	<u>1,916,247</u>
Brokered certificate of deposit	<u>1,801,181</u>	<u>-</u>	<u>-</u>	<u>1,801,181</u>
Certificates of deposit	<u>757,508</u>	<u>-</u>	<u>-</u>	<u>757,508</u>
Money market fund	<u>346,024</u>	<u>-</u>	<u>-</u>	<u>346,024</u>
Total investments	<u>12,573,468</u>	<u>1,202,947</u>	<u>-</u>	<u>13,776,415</u>
Beneficial interest in perpetual trust	<u>-</u>	<u>-</u>	<u>222,621</u>	<u>222,621</u>
Total investments at fair value	<u>\$ 12,573,468</u>	<u>\$ 1,202,947</u>	<u>\$ 222,621</u>	<u>\$ 13,999,036</u>

HAWAII FOODBANK, INC.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**For the Year Ended June 30, 2020
(With Prior Year Comparative Information)**

NOTE H – 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, 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	222,621
Sales and distributions	(29,685)
Purchases	20,256
Realized and unrealized gains – net	<u>2,973</u>
 Balance at June 30, 2020	 <u>\$ 216,165</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, 2020 and 2019.

NOTE I – PROPERTY AND EQUIPMENT

At June 30, 2020 and 2019, property and equipment consisted of the following:

	<u>2020</u>	<u>2019</u>
Building	\$ 6,876,299	\$ 4,634,689
Leasehold improvements – Kauai	170,509	170,509
Vehicles	1,269,420	1,222,888
Office furniture and equipment	428,323	446,561
Warehouse equipment	272,667	380,597
Construction in progress	-	<u>124,382</u>
Total property and equipment	9,017,218	6,979,626
Accumulated depreciation	<u>(4,531,656)</u>	<u>(4,745,881)</u>
Property and equipment without contributed property	4,485,562	2,233,745
Contributed use of property – net	<u>1,276,844</u>	<u>1,290,112</u>
 Property and equipment – net	 <u>\$ 5,762,406</u>	 <u>\$ 3,523,857</u>

HAWAII FOODBANK, INC.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**For the Year Ended June 30, 2020
(With Prior Year Comparative Information)**

NOTE J – NET ASSETS WITH DONOR RESTRICTIONS

At June 30, 2020 and 2019, net assets with donor restrictions for programs consisted of the following:

	<u>2020</u>	<u>2019</u>
Net assets with donor restrictions for programs		
Contributed use of property	\$ 1,276,844	\$ 1,290,112
CDBG Grant	793,333	850,000
Aloha United Way	125,989	110,086
Vehicle acquisition	67,000	94,780
Oahu Emergency Relief	33,814	25,718
Kauai United Way	18,832	13,392
Food purchases	17,000	32,204
Kauai Emergency Relief	-	17,539
Other	<u>9,077</u>	<u>42,933</u>
Net assets with donor restrictions for programs	<u>\$2,341,889</u>	<u>\$2,476,764</u>

At June 30, 2020 and 2019, net assets with donor restrictions for endowments consisted of the following:

	<u>2020</u>	<u>2019</u>
Net assets with donor restrictions for endowments		
The Harry and Jeanette Weinberg Foundation	\$ 600,000	\$ 600,000
Beneficial interest in perpetual trust	216,165	222,621
Funds designated for matching grant	<u>200,000</u>	<u>200,000</u>
Net assets with donor restrictions for endowments	<u>\$ 1,016,165</u>	<u>\$ 1,022,621</u>

NOTE K – 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 U.S. GAAP, deficiencies of this nature are reported in net assets with donor restrictions (none for the years ended June 30, 2020 and 2019).

HAWAII FOODBANK, INC.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**For the Year Ended June 30, 2020
(With Prior Year Comparative Information)**

NOTE K – ENDOWMENTS (Continued)

Changes in endowment net assets for the years ended June 30, 2020 and 2019 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, 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	-	7,857	1,022,621	1,030,478
Change in investment value	-	15,788	(6,456)	9,332
Appropriation of endowment earnings for expenditure	14,568	(14,568)	-	-
Expenditure of endowment earnings	<u>(14,568)</u>	<u>-</u>	<u>-</u>	<u>(14,568)</u>
Balance at June 30, 2020	<u>\$ -</u>	<u>\$ 9,077</u>	<u>\$ 1,016,165</u>	<u>\$ 1,025,242</u>

NOTE L – 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, 2020
(With Prior Year Comparative Information)**

NOTE L – LEASES (Continued)

At June 30, 2020 and 2019, the Organization’s contributed use of property was as follows:

	<u>2020</u>	<u>2019</u>
Fair value of lease rent	\$ 5,029,200	\$ 5,029,200
Accumulated amortization of lease rent	<u>(1,974,426)</u>	<u>(1,862,666)</u>
Net fair value of lease rent	<u>3,054,774</u>	<u>3,166,534</u>
Discount on lease rent	(3,609,778)	(3,609,778)
Accumulated amortization of discount	<u>1,831,848</u>	<u>1,733,356</u>
Net discount on lease rent	<u>(1,777,930)</u>	<u>(1,876,422)</u>
Contributed use of property – net	<u>\$ 1,276,844</u>	<u>\$ 1,290,112</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 November 2021.

The Organization also leases office equipment that expires in June 2021. Office equipment and space rent for the years ended June 30, 2020 and 2019 were approximately \$119,000 and \$123,000, respectively. At June 30, 2020, the future minimum operating lease payments were as follows:

	<u>Operating Leases</u>
Years Ending June 30th	
2021	\$ 84,400
2022	\$ 53,900
2023	\$ 52,700
2024	\$ 51,500
2025	\$ 51,500
Thereafter	\$1,133,000

HAWAII FOODBANK, INC.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended June 30, 2020
(With Prior Year Comparative Information)

NOTE M – SPECIAL EVENTS

Revenue and direct costs from special events held during the years ended June 30, 2020 and 2019 were as follows:

	<u>2020</u>	<u>2019</u>
Special events revenue		
Golf tournament	\$ 156,599	\$ 64,801
Black Out Hunger	41,021	-
Great Chefs	-	126,717
Total revenue	<u>197,620</u>	<u>191,518</u>
Direct costs of the special events	<u>(59,058)</u>	<u>(61,234)</u>
Special events – net	<u>\$ 138,562</u>	<u>\$ 130,284</u>

NOTE N – RETIREMENT PLAN

The Organization has a defined contribution plan under Section 401(k) under the Internal Revenue Code (Plan). 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. For the year ended, the Organization contributed 3% of an eligible participant's compensation, as defined, to the Plan. Total contributions to the Plan approximated \$65,000 and \$30,000 for the years ended June 30, 2020 and 2019, respectively.

NOTE O – 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 \$0.1045.

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, 2020 (With Prior Year Comparative Information)

NOTE O – 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.

On March 11, 2020, the World Health Organization (WHO) recognized COVID-19 as a global pandemic prompting many national, regional, and local governments to implement preventative or protective measures, such as travel and business restrictions; temporary hotel, store and restaurant closures; and wide sweeping quarantines and stay-at-home orders. As a result, COVID-19 and the related restrictive measures have had a significant adverse impact on the economy, including disruptions in the food supply chain and a dramatic increase in unemployment on the islands served by the Organization.

Beginning in March 2020, COVID-19 caused significant shifts in how the Organization met, and continues to meet, the need of those facing hunger in Hawaii. These shifts have been accompanied by significant increases in short and long-term operating expenses. These shifts include:

- An increase in the number of those facing hunger as a result of the economy shutting down and the slow economic recovery.
- A decrease in the amount of food donated to the Organization, which required the Organization to increase the amount of food it purchases to meet demand.
- Transitioning the Organization's food distribution processes to adhere to new social distancing guidelines.

Community support has exceeded expectations since the COVID-19 pandemic began. Several factors have and will continue to require the Organization to purchase additional quantities of non-perishable and perishable food in the coming months to meet the increased need in the communities served. Anticipated expenses to purchase food in the near term may triple historical purchases. However, the pandemic remains a rapidly evolving situation. The extent of the impact of COVID-19 on community financial support and demand for the Organization's services and resources will depend on future developments, including the duration and spread of the outbreak and the rate of economic recovery, all of which are highly uncertain.

NOTE P – 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.

HAWAII FOODBANK, INC.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**For the Year Ended June 30, 2020
(With Prior Year Comparative Information)**

NOTE Q – SUBSEQUENT EVENTS

Management has evaluated subsequent events through May 21, 2021, 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.
