# HAWAII FOODBANK, INC.

**FINANCIAL STATEMENTS**
**As of and for the Year Ended June 30, 2017**
**With Prior Year Comparative Information**
**And Independent Auditor's Report**

CW Associates
*A Hawaii Certified Public Accounting Corporation*

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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, 2017, 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 and the standards applicable to financial audits contained in the *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 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, 2017, 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.

Report on Prior Year Comparative Information

The financial statements of the Organization as of and for the year ended June 30, 2016, were audited by another auditor who expressed an unmodified opinion on those audited financial statements on December 9, 2016. 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.

Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated March 29, 2018, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the 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
March 29, 2018

**HAWAII FOODBANK, INC.**

**STATEMENT OF FINANCIAL POSITION**

**As of June 30, 2017**
**(With Prior Year Comparative Information)**

| | 2017 | 2016 |
|---|---|---|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents (including interest-bearing accounts) | $ 4,073,067 | $ 5,391,987 |
| Receivables – net | 368,723 | 359,748 |
| Inventory – net | 1,988,093 | 1,279,219 |
| Investments | 2,079,421 | - |
| Prepaid expenses and other assets | 64,981 | 73,010 |
| Total current assets | 8,574,285 | 7,103,964 |
| NONCURRENT ASSETS | | |
| Board designated investments | 10,795,116 | 10,771,421 |
| Property and equipment – net | 3,511,273 | 3,623,336 |
| Beneficial interest in perpetual trust | 219,126 | 206,931 |
| Endowments for building maintenance | 400,000 | 400,000 |
| Endowment for agency assistance | 400,000 | 400,000 |
| Total noncurrent assets | 15,325,515 | 15,401,688 |
| TOTAL ASSETS | $ 23,899,800 | $ 22,505,652 |
| LIABILITIES AND NET ASSETS | | |
| CURRENT LIABILITIES | | |
| Accounts payable | $ 89,195 | $ 62,622 |
| Accrued liabilities | 442,593 | 368,296 |
| Due to agencies | 511,555 | 366,608 |
| Total current liabilities | 1,043,343 | 797,526 |
| ASSET RETIREMENT OBLIGATION | 32,434 | 30,598 |
| TOTAL LIABILITIES | 1,075,777 | 828,124 |
| NET ASSETS | | |
| Unrestricted | | |
| Undesignated | 6,959,269 | 5,737,275 |
| Board designated | 10,795,116 | 10,771,421 |
| Invested in property and equipment | 1,234,150 | 1,278,997 |
| Total unrestricted net assets | 18,988,535 | 17,787,693 |
| Temporarily restricted | 2,816,362 | 2,882,904 |
| Permanently restricted | 1,019,126 | 1,006,931 |
| Total net assets | 22,824,023 | 21,677,528 |
| TOTAL LIABILITIES AND NET ASSETS | $ 23,899,800 | $ 22,505,652 |

See accompanying notes to the financial statements.

## HAWAII FOODBANK, INC.

## STATEMENT OF ACTIVITIES

**For the Year Ended June 30, 2017**
**(With Prior Year Comparative Information)**

| | 2017 | 2016 |
|---|---|---|
| CHANGES IN UNRESTRICTED NET ASSETS | | |
| Revenue and support | | |
| Food contributions | $ 25,462,779 | $25,646,633 |
| Contributions from the public | 3,063,730 | 3,400,610 |
| Public and private grants | 1,187,972 | 232,343 |
| Net assets released from restriction | 867,457 | 1,687,386 |
| Investment and other income | 637,235 | 214,031 |
| Shared maintenance fees | 549,477 | 732,751 |
| Special events – net | 153,556 | 128,513 |
| Total revenue and support | 31,922,206 | 32,042,267 |
| Expenses | | |
| Program services | 28,960,160 | 30,362,583 |
| Supporting services | | |
| Management and general | 858,039 | 688,003 |
| Fundraising and development | 903,165 | 916,401 |
| Total supporting services | 1,761,204 | 1,604,404 |
| Total expenses | 30,721,364 | 31,966,987 |
| Increase in unrestricted net assets | 1,200,842 | 75,280 |
| CHANGES IN TEMPORARILY RESTRICTED NET ASSETS | | |
| Temporarily restricted contributions and grants | 794,143 | 1,874,162 |
| Temporarily restricted interest income | 6,772 | 6,673 |
| Net assets released from restrictions | (867,457) | (1,687,386) |
| Increase (decrease) in temporarily restricted net assets | (66,542) | 193,449 |
| CHANGES IN PERMANENTLY RESTRICTED NET ASSETS | | |
| Change in value of charitable trust | 12,195 | (13,526) |
| Increase (decrease) in permanently restricted net assets | 12,195 | (13,526) |
| INCREASE IN NET ASSETS | 1,146,495 | 255,203 |
| NET ASSETS – Beginning of year | 21,677,528 | 21,422,325 |
| NET ASSETS – End of year | $ 22,824,023 | $21,677,528 |

See accompanying notes to the financial statements.

**HAWAII FOODBANK, INC.**

**STATEMENT OF FUNCTIONAL EXPENSES**

**For the Year Ended June 30, 2017**
**(With Prior Year Comparative Information)**

| | Program Services | Management and General | Fundraising | 2017 Total | 2016 Total |
|---|---|---|---|---|---|
| Food donations to agencies | $ 24,937,536 | $ - | $ - | $ 24,937,536 | $ 26,127,370 |
| Salaries and wages | 1,207,770 | 403,831 | 466,155 | 2,077,756 | 1,907,349 |
| Agency and neighbor island support | 1,237,856 | - | - | 1,237,856 | 1,211,264 |
| Payroll taxes, employee benefits and training | 373,657 | 110,917 | 115,748 | 600,322 | 592,057 |
| Occupancy | 441,672 | 33,421 | 33,421 | 508,514 | 542,559 |
| Equipment, supplies and miscellaneous | 200,806 | 58,180 | 34,182 | 293,168 | 541,019 |
| Depreciation | 232,152 | 20,484 | 20,484 | 273,120 | 299,732 |
| Transportation | 245,794 | 417 | 2,416 | 248,627 | 198,621 |
| Professional fees | - | 173,373 | 3,391 | 176,764 | 134,864 |
| Printing and bulk mail costs | - | 18,278 | 153,240 | 171,518 | 184,486 |
| Dues, subscriptions, membership fees, and meetings | 17,804 | 35,429 | 7,256 | 60,489 | 43,506 |
| Fund raising event direct costs | 23,817 | - | 60,757 | 84,574 | 131,505 |
| Insurance | 33,837 | 3,709 | 3,490 | 41,036 | 41,414 |
| Volunteer expenses | 7,459 | - | 2,625 | 10,084 | 11,241 |
| Total expenses | $ 28,960,160 | $ 858,039 | $ 903,165 | $ 30,721,364 | $ 31,966,987 |

See accompanying notes to the financial statements.

**HAWAII FOODBANK, INC.**

**STATEMENT OF CASH FLOWS**

**For the Year Ended June 30, 2017**
**(With Prior Year Comparative Information)**

| | 2017 | 2016 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Increase in net assets | $ 1,146,495 | $ 255,203 |
| Adjustments to reconcile increase in net assets to net cash provided by operating activities: | | |
| Depreciation | 271,284 | 298,000 |
| Loss on sale of property and equipment | 2,000 | - |
| Accretion of asset retirement obligation | 1,836 | 1,732 |
| Change in value of beneficial interest in perpetual trust | (12,195) | 13,526 |
| Net realized and unrealized (gains) losses on investments | (381,033) | 76,864 |
| Amortization of discount on use of contributed property | (101,211) | (101,988) |
| Amortization of fair value of use of contributed property | 111,760 | 111,760 |
| Contributions restricted for property and equipment | (100,000) | - |
| (Increase) decrease in: | | |
| Receivables – net | (8,975) | (24,666) |
| Inventory – net | (708,874) | 97,274 |
| Prepaid expenses and other assets | 8,029 | (8,994) |
| Increase (decrease) in: | | |
| Accounts payable | 26,573 | (132,670) |
| Accrued liabilities | 74,297 | 45,711 |
| Due to agencies | 144,947 | 93,696 |
| Net cash provided by operating activities | 474,933 | 725,448 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of property and equipment | (171,770) | (92,060) |
| Proceeds from sale of investments | 847,366 | 1,537,432 |
| Purchase of investments | (2,437,989) | (1,483,213) |
| Change in Board restricted cash | (131,460) | (151,083) |
| Net cash used by investing activities | (1,893,853) | (188,924) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from contributions restricted for investment in property and equipment | 100,000 | - |
| Net cash provided by financing activities | 100,000 | - |
| NET INCREASE (DECREASE) IN CASH | (1,318,920) | 536,524 |
| CASH – Beginning of year | 5,391,987 | 4,855,463 |
| CASH – End of year | $ 4,073,067 | $5,391,987 |

See accompanying notes to the financial statements.

**HAWAII FOODBANK, INC.**

**NOTES TO THE FINANCIAL STATEMENTS**

**For the Year Ended June 30, 2017**
**(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 three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support 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 temporarily restricted or permanently restricted net assets, depending on the nature of the restriction. When a restriction is satisfied or expires, restricted net assets are reclassified to unrestricted net assets. Grants are recognized to the extent of expenditures made in accordance with the related agreements.

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 various programs 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. Expenses related to the operations of the Kauai branch included in the allocation of functional expenses totaled $487,348 and $562,492 for the years ended June 30, 2017 and 2016, 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.

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 (board designated funds and beneficial interest in perpetual trust). Cash on deposit with financial institutions exceeded the related federal deposit insurance by approximately $6,571,700 and $5,504,900 at June 30, 2017 and 2016, 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

Contributions receivable are expected to be collected during the next fiscal year. Management analyzes the collectability of the contributions receivable and such receivables have been adjusted for all known doubtful accounts by approximately $16,000 and $10,100 at June 30, 2017 and 2016, respectively.

Trade receivables are stated at unpaid balances, less an allowance for doubtful accounts, which was approximately $3,000 at June 30, 2017 and 2016. The allowance is based on experience and other circumstances, which may affect the ability of agencies to meet their obligations. Receivables are considered doubtful if payments are not received in accordance with the contractual terms. It is the Organization's policy to charge 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, 2017 and 2016.

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 $42,400 and $27,000 at June 30, 2017 and 2016, respectively.

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, 2017 and 2016. 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 trusts represents assets held in perpetual trusts by independent trustees and represent resources neither in the possession nor under the control of the Organization, although the Organization derives income from the assets of such trusts. 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, 2017 and 2016, the due to agencies balance represents amounts to be applied to various agency accounts.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Food Contributions

Food contributions received by the Organization are capitalized as food inventory and recorded as unrestricted revenue. Upon distribution, the value of the food is recorded as a decrease in unrestricted net assets 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. Revenues from exchange transactions are 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 that are charged for products on a per pound basis, not to exceed $0.18 per pound. These charges are reflected as revenue from shared maintenance fees in the accompanying financial statements.

Hawaii General Excise 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, plus an additional 0.5% on such gross receipts within the City and County of Honolulu. Hawaii general excise tax is included in special events – net. Hawaii general excise tax amounted to $33,526 and $59,702 for the years ended June 30, 2017 and 2016, respectively.

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, 2017 and 2016 and for the years then ended by reviewing its income tax returns and conferring with its tax advisors, and determined that 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.

NOTE B – RECEIVABLES

At June 30, 2017 and 2016, receivables consisted of the following:

| | 2017 | 2016 |
|---|---|---|
| Contributions receivable | $ 191,661 | $ 221,870 |
| Grants receivable | 157,326 | 105,205 |
| Accounts receivable | 27,806 | 40,884 |
| Other receivables | 10,930 | 4,914 |
| Total receivables | 387,723 | 372,873 |
| Allowance for doubtful accounts | (19,000) | (13,125) |
| Receivables – net | $ 368,723 | $ 359,748 |

## NOTE C – INVENTORY

For the years ended June 30, 2017 and 2016, the food inventory transactions were as follows:

| | Pounds | Value |
|---|---|---|
| Balances at June 30, 2015 | 806,648 | $ 1,376,493 |
| Food contributions | 15,220,554 | 25,646,633 |
| Food distributions | (13,718,528) | (23,115,720) |
| Unsalvageable food and valuation adjustment | (1,547,053) | (2,604,046) |
| Other | - | (24,141) |
| Balance at June 30, 2016 | 761,621 | 1,279,219 |
| Food contributions | 15,281,704 | 25,462,777 |
| Food distributions | (13,417,193) | (22,302,681) |
| Unsalvageable food and valuation adjustment | (1,443,168) | (2,453,386) |
| Other | - | 2,164 |
| Balance at June 30, 2017 | 1,182,964 | $ 1,988,093 |

## NOTE D – INVESTMENTS AND BOARD DESIGNATED INVESTMENTS

The Organization allocates cash and the fair value of the investments between undesignated and board designated funds. At June 30, 2017 and 2016, the fair value of total investments held by the Organization are as follows:

| | 2017 | 2016 |
|---|---|---|
| Equity securities | $ 3,524,723 | $ 2,203,141 |
| Mutual funds – fixed income funds | 3,176,305 | 2,619,959 |
| Mutual funds – equity funds | 1,629,380 | 1,161,111 |
| Government obligations | 1,490,501 | 1,157,791 |
| Money market funds | 223,984 | 935,034 |
| | $10,044,893 | $ 8,077,036 |

NOTE D – 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 investments are Board restricted for use to pay the shared maintenance fees of certain food distribution agencies. At June 30, 2017 and 2016, the investment and cash balances were allocated as follows:

| | 2017 | 2016 |
|---|---|---|
| Board designated | | |
| Investments | $ 7,965,472 | $ 8,077,036 |
| Certificates of deposit | 1,771,928 | 1,768,129 |
| Cash and cash equivalents | 1,057,716 | 926,256 |
| Total board designated | 10,795,116 | 10,771,421 |
| Undesignated | | |
| Cash and cash equivalents | 4,073,067 | 5,391,987 |
| Investments | 2,079,421 | - |
| Total undesignated | 6,152,488 | 5,391,987 |
| Total cash and investments | $16,947,604 | $16,163,408 |

For the years ended June 30, 2017 and 2016, investment and other income earned on the board designated funds consisted of the following:

| | 2017 | 2016 |
|---|---|---|
| Net realized and unrealized gains (losses) | $381,033 | $ (76,864) |
| Interest and dividend income | 247,700 | 283,770 |
| Other income | 8,502 | 7,125 |
| | $637,235 | $ 214,031 |

## NOTE E – ENDOWMENTS FOR BUILDING MAINTENANCE AND AGENCY ASSISTANCE

The endowments for building maintenance and agency assistance consist of restricted time certificates of deposit (TCDs) 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 TCDs, but not to the principal, which must be invested in perpetuity (permanently restricted). 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 TCD related to the endowment for building maintenance matures annually in June and the TCD related to agency assistance matures annually in

February. The agency assistance agreement required that the Organization match the $200,000 from the grantor and maintain the funds in perpetuity. These matching funds are held in cash equivalents.

## NOTE F – 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, 2017 and 2016, the fair value measurements reportable by the Organization consisted of investments in mutual funds, equity securities, and U.S. treasury obligations valued using quoted market prices (Level 1 measurements), U.S. government agencies 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 beneficial interests 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.

NOTE F – FAIR VALUE MEASUREMENTS (Continued)

The following sets forth by level, within the fair value hierarchy, investments at fair value as of June 30, 2017:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Investments | | | | |
| Mutual funds | | | | |
| Fixed income | $ 1,450,169 | $ - | $ - | $ 1,450,169 |
| Short-term bond | 1,056,180 | - | - | 1,056,180 |
| Financial | 329,641 | - | - | 329,641 |
| Diversified emerging markets | 269,916 | - | - | 269,916 |
| Government | 247,865 | - | - | 247,865 |
| Technology | 242,949 | - | - | 242,949 |
| High yield bond | 204,531 | - | - | 204,531 |
| European stock | 177,107 | - | - | 177,107 |
| Precious metals | 167,394 | - | - | 167,394 |
| Consumer cyclical | 109,438 | - | - | 109,438 |
| World allocation mid value | 103,402 | - | - | 103,402 |
| Real estate mid growth | 98,395 | - | - | 98,395 |
| Commodities broad basket | 97,147 | - | - | 97,147 |
| Large value | 96,251 | - | - | 96,251 |
| Other | 155,300 | - | - | 155,300 |
| Total mutual funds | 4,805,685 | - | - | 4,805,685 |
| Equity securities | | | | |
| Consumer goods | 1,204,951 | - | - | 1,204,951 |
| Industrial goods | 570,499 | - | - | 570,499 |
| Financial | 517,250 | - | - | 517,250 |
| Technology | 421,858 | - | - | 421,858 |
| Healthcare | 342,879 | - | - | 342,879 |
| Utilities and energy | 222,791 | - | - | 222,791 |
| Basic materials | 154,818 | - | - | 154,818 |
| Services | 89,677 | - | - | 89,677 |
| Total equity securities | 3,524,723 | - | - | 3,524,723 |
| Government obligations | | | | |
| U.S. treasury obligations | 525,371 | - | - | 525,371 |
| U.S. government agencies | - | 965,130 | - | 965,130 |
| Total government obligations | 525,371 | 965,130 | - | 1,490,501 |
| Money market fund | 223,984 | - | - | 223,984 |
| Total Investments | 9,079,763 | 965,130 | - | 10,044,893 |
| Beneficial interest in perpetual trust | - | - | 219,127 | 219,127 |
| Total assets at fair value | $ 9,079,763 | $ 965,130 | $ 219,127 | $ 10,264,020 |

NOTE F – FAIR VALUE MEASUREMENTS (Continued)

The following sets forth by level, within the fair value hierarchy, investments at fair value as of June 30, 2016:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Investments | | | | |
| Mutual funds | | | | |
| Fixed income | $ 1,186,063 | $ - | $ - | $ 1,186,063 |
| Short-term bond | 1,019,911 | - | - | 1,019,911 |
| European stock | 314,044 | - | - | 314,044 |
| Financial | 249,302 | - | - | 249,302 |
| Small blend | 194,778 | - | - | 194,778 |
| Technology | 184,730 | - | - | 184,730 |
| High yield bond | 176,241 | - | - | 176,241 |
| Government | 155,538 | - | - | 155,538 |
| Large value | 86,520 | - | - | 86,520 |
| Commodities precious metals | 82,206 | - | - | 82,206 |
| Other | 131,736 | - | - | 131,736 |
| Total mutual funds | 3,781,069 | - | - | 3,781,069 |
| Equity securities | | | | |
| Basic materials | 213,416 | - | - | 213,416 |
| Consumer goods | 416,395 | - | - | 416,395 |
| Financial | 345,798 | - | - | 345,798 |
| Technology | 341,052 | - | - | 341,052 |
| Services | 319,891 | - | - | 319,891 |
| Healthcare | 252,646 | - | - | 252,646 |
| Industrial goods | 226,270 | - | - | 226,270 |
| Utilities | 87,672 | - | - | 87,672 |
| Total equity securities | 2,203,140 | - | - | 2,203,140 |
| Government obligations | | | | |
| U.S. treasury obligations | 707,502 | - | - | 707,502 |
| U.S. government agencies | - | 450,289 | - | 450,289 |
| Total government obligations | 707,502 | 450,289 | - | 1,157,791 |
| Money market fund | 935,034 | - | - | 935,034 |
| Total Investments | 7,626,745 | 450,289 | - | 8,077,034 |
| Beneficial interest in perpetual trust | - | - | 206,931 | 206,931 |
| Total assets at fair value | $ 7,626,745 | $ 450,289 | $ 206,931 | $ 8,283,965 |

NOTE F – 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:

| | Value |
|---|---|
| Balance at June 30, 2015 | $ 220,457 |
| Sales and distributions | (111,706) |
| Purchases | 90,398 |
| Realized and unrealized gains, net | 7,782 |
| Balances at June 30, 2016 | 206,931 |
| Sales and distributions | (13,177) |
| Purchases | 7,238 |
| Realized and unrealized gains, net | 18,134 |
| Balance at June 30, 2017 | $ 219,126 |

There were no transfers between Level 1 and Level 2 of the fair value hierarchy and valuation techniques utilized to determine fair value were consistently applied during the years ended June 30, 2017 and 2016.

NOTE G – PROPERTY AND EQUIPMENT

At June 30, 2017 and 2016, property and equipment consisted of the following:

| | 2017 | 2016 |
|---|---|---|
| Building | $ 2,204,578 | $ 2,082,203 |
| Building Phase II | 2,372,466 | 2,372,466 |
| Leasehold improvements – Kauai | 170,509 | 170,509 |
| Vehicles | 1,204,674 | 1,167,204 |
| Office furniture and equipment | 343,823 | 355,357 |
| Warehouse equipment | 274,801 | 272,617 |
| Total property and equipment | 6,570,851 | 6,420,356 |
| Accumulated depreciation | (4,373,368) | (4,121,359) |
| Property and equipment without contributed property | 2,197,483 | 2,298,997 |
| Contributed use of property – net | 1,313,790 | 1,324,339 |
| Property and equipment – net | $ 3,511,273 | $ 3,623,336 |

## NOTE H – TEMPORARILY RESTRICTED NET ASSETS

At June 30, 2017 and 2016, temporarily restricted net assets consisted of the following:

| | 2017 | 2016 |
|---|---|---|
| Temporarily restricted for: | | |
| Contributed use of property | $1,313,790 | $1,324,339 |
| CDBG Grant | 963,333 | 1,020,000 |
| Aloha United Way | 192,239 | 207,863 |
| McInerny Foundation | 100,000 | - |
| Walmart Foundation | 60,000 | 60,000 |
| Kauai United Way | 17,184 | 14,008 |
| Other | 169,816 | 256,694 |
| Temporarily restricted net assets | $2,816,362 | $2,882,904 |

## NOTE I – PERMANENTLY RESTRICTED NET ASSETS

At June 30, 2017 and 2016, permanently restricted net assets consisted of the following:

| | 2017 | 2016 |
|---|---|---|
| Permanently restricted for: | | |
| The Harry and Jeanette Weinberg Foundation | $ 600,000 | $ 600,000 |
| Funds designated for matching grant | 200,000 | 200,000 |
| Beneficial interest in perpetual trust | 219,126 | 206,931 |
| Temporarily restricted net assets | $1,019,126 | $1,006,931 |

## 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 permanently restricted net assets, absent explicit donor stipulations to the contrary. Unless otherwise stated, other donor-restricted gifts are classified as temporarily restricted net assets. 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 unrestricted net assets (none for the years ended June 30, 2017 and 2016).

NOTE J – ENDOWMENTS (Continued)

The Organization's endowments include donor-restricted endowment funds in temporarily restricted and permanently restricted net assets.

Changes in endowment net assets for the years ended June 30, 2017 and 2016 are as follows:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Balance at June 30, 2015 | $ - | $ 2,172 | $ 1,020,457 | $ 1,022,629 |
| Interest income | - | 6,673 | - | 6,673 |
| Change in investment value | - | - | (13,526) | (13,526) |
| Appropriation of endowment earnings for expenditure | 4,372 | (4,372) | - | - |
| Expenditure of endowment earnings | (4,372) | - | - | (4,372) |
| Balance at June 30, 2016 | - | 4,473 | 1,006,931 | 1,011,404 |
| Interest income | - | 6,772 | - | 6,772 |
| Change in investment value | - | - | 12,195 | 12,195 |
| Appropriation of endowment earnings for expenditure | 4,360 | (4,360) | - | - |
| Expenditure of endowment earnings | (4,360) | - | - | (4,360) |
| Balance at June 30, 2017 | $ - | $ 6,885 | $ 1,019,126 | $ 1,026,011 |

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 at the fair rental value, which is amortized over the lease term and is recorded as occupancy expense in the statements 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 statements of activities.

NOTE K – LEASES (Continued)

At June 30, 2017 and 2016, the Organization's contributed use of property was as follows:

| | 2017 | 2016 |
|---|---|---|
| Fair value of lease rent | $5,029,200 | $5,029,200 |
| Less: Accumulated amortization of lease rent | (1,639,147) | (1,527,387) |
| Net fair value of lease rent | 3,390,053 | 3,501,813 |
| Discount on lease rent | (3,609,778) | (3,609,778) |
| Less: Accumulated amortization of discount | 1,533,515 | 1,432,304 |
| Net discount on lease rent | (2,076,263) | (2,177,474) |
| Contributed use of property – net | $1,313,790 | $1,324,339 |

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.

At June 30, 2017, the present value of future minimum capital lease payments and future minimum operating lease payments were as follows:

| | Operating Leases |
|---|---|
| Years Ending June 30th: | |
| 2018 | $ 107,200 |
| 2019 | $ 105,700 |
| 2020 | $ 105,700 |
| 2021 | $ 75,300 |
| 2022 | $ 60,100 |
| Thereafter | $1,319,700 |

## NOTE L – SPECIAL EVENTS

Revenue and direct costs from special events held during the years ended June 30, 2017 and 2016 were as follows:

| | 2017 | 2016 |
|---|---|---|
| Special events revenue | | |
| Great Chefs event | $ 151,463 | $ 147,646 |
| Golf tournament | 66,723 | 45,160 |
| Total revenue | 218,186 | 192,806 |
| Direct costs of the special events | 64,630 | 64,293 |
| Special events – net | $ 153,556 | $ 128,513 |

## NOTE M– RETIREMENT PLAN

The Organization maintains a simplified employee pension plan. The Organization made annual contributions to eligible employees' retirement accounts equal to approximately 5% of applicable wages in years ended June 30, 2017 and 2016, respectively. Pension expense recognized by the Organization approximated $89,000 and $79,000 for the years ended June 30, 2017 and 2016, respectively.

## NOTE N – COMMITMENTS AND CONTINGENCIES

On June 15, 2016, the Organization entered into a power purchase agreement with an initial term of 25 contract years for design, construction, and installation of a solar power generation system (System) on the Organization's premises, and for purchase of the electric energy generated by the System.

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, to be immaterial 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.

## NOTE N – COMMITMENTS AND CONTINGENCIES (Continued)

The Organization operates in the State of Hawaii. National and international events can have severe, adverse effects on economic conditions in Hawaii. The effects on the financial statements of the Organization, if any, from such changes in economic conditions are not presently determinable.

## NOTE O – CONFLICT OF INTEREST

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 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 conformity 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, 2016, from which the information was derived.

Certain amounts in the prior year have been reclassified to conform to the current year presentation. These reclassifications have not effect on previously reported changes in net assets.

## NOTE Q – SUBSEQUENT EVENTS

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 was signed into law. The law includes significant changes to the United States of America income tax system, including changes to unrelated business income tax and limitations on the deductibility of certain expenses. Accounting principles generally accepted in the United States of America require the effect of a change in tax law to be recognized when enacted. The new tax law is not expected to have a financial impact on the Organization as it is not subject to federal income tax.

Management has evaluated subsequent events through May 29, 2018, 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.