

**The Food Basket, Inc.**

**(A Not-for-Profit Organization)**

**Financial Statements**

**(with Independent Auditor's Reports)**

**For the Years Ended December 31, 2018 and 2017**

The Food Basket Inc,  
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**Ann N. Fukuhara, CPA MBA**  
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**INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
The Food Basket, Inc.

**Report on the Financial Statements**

We have audited the accompanying financial statements of The Food Basket, Inc. which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities, functional expenses and cash flows for the years 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 audits. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 opinions.

*Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Food Basket, Inc. as of December 31, 2018 and 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.

***Other Matters***

*Report on Summarized Comparative Information*

We have previously audited the Organization's 2017 financial statements, and we have expressed an unmodified audit opinion on those audited financial statements in our report dated September 10, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

***Other Reporting Required by Government Auditing Standards***

In accordance with Government Auditing Standards, we have also issued our report dated September 14, 2019, on our consideration of The Food Basket, Inc.'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 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 Food Basket, Inc.'s internal control over financial reporting and compliance.

*Ann Fukuhara*

Ann Fukuhara, CPA, MBA An Accountancy Corporation  
September 14, 2019  
Hilo, Hawaii

The Food Basket, Inc.  
(a not-for-profit organization)

Statements of Financial Position

December 31, 2018  
With Comparative Totals for 2017

	2018	2017
<b>ASSETS</b>		
Cash and cash equivalents	\$ 118,031	\$ 116,126
Accounts receivable	5,218	4,779
Grants receivables	105,756	39,650
Inventory	761,993	850,200
Property and equipment, net of accumulated depreciation of \$223,691 for 2018 and \$197,656 for 2017	1,194,740	968,824
Deposits	6,301	6,698
Prepaid expense	16,467	47,417
Cash - designated by donors	184,784	178,797
Total assets	2,393,290	2,212,491
 <b>LIABILITIES AND NET ASSETS</b>		
Accounts payable	41,628	33,074
Accrued expenses	61,992	51,086
Deferred revenues	9,064	20,315
Other payables	-	27,925
Line of credit	-	21,763
Current portion of notes payable	49,672	47,451
Total current liabilities	162,356	201,614
Long-term portion of notes payable	121,355	170,934
 <b>Net Assets:</b>		
Without donor restrictions	1,924,795	1,661,146
With donor restrictions	184,784	178,797
Total net assets	2,109,579	1,839,943
Total liabilities and net assets	\$ 2,393,290	\$ 2,212,491

The accompanying notes are an integral part of these financial statements.

The Food Basket, Inc.  
(a not-for-profit organization)

Statements of Activities

For the Year Ended December 31, 2018  
With Comparative Totals for 2017

	Without Donor Restrictions	With Donor Restrictions	2018 Total	2017 Total
<b>REVENUES, GAINS AND OTHER SUPPORT</b>				
Revenues and support				
Donations	\$ 3,983,336	\$ 425,098	\$ 4,408,434	\$ 4,021,598
Government contracts - State of Hawaii	-	230,224	230,224	254,288
County of Hawaii - contract	-	41,437	41,437	60,105
Federal grants	-	275,306	275,306	75,151
United Way and combined federal campaign	4,825	11,667	16,492	61,900
Program service fees	199,785	81,466	281,251	188,946
Special events	61,965	-	61,965	28,333
Interest income	4	-	4	73
Other income	5,845	-	5,845	3,204
Total revenues and gains	4,255,760	1,065,198	5,320,958	4,693,598
Net assets released from restrictions satisfaction				
Satisfied by expenditures	1,059,211	(1,059,211)	-	-
Total revenues	5,314,971	5,987	5,320,958	4,693,598
<b>EXPENSES</b>				
Program expenses	4,800,261	-	4,800,261	4,183,940
General & administrative	150,112	-	150,112	137,368
Fundraising	100,949	-	100,949	66,736
	5,051,322	-	5,051,322	4,388,044
Change in net assets	263,649	5,987	269,636	305,554
Net assets, beginning of year	1,661,146	178,797	1,839,943	1,534,389
Net assets, end of year	\$ 1,924,795	\$ 184,784	\$ 2,109,579	\$ 1,839,943

The accompanying notes are an integral part of these financial statements.

The Food Basket, Inc.  
(a not-for-profit organization)

Statements of Functional Expenses

For the Year Ended December 31, 2018  
With Comparative Totals for 2017

	Program Expenses	General and Administrative	Fundraising	2018 Total	2017 Total
Salaries	\$ 502,235	\$ 55,804	\$ -	\$ 558,039	\$ 577,877
Other employee benefits	145,178	16,131	-	161,309	147,221
Payroll taxes	58,259	6,473	-	64,732	67,033
Total salaries and related expenses	<u>705,672</u>	<u>78,408</u>	<u>-</u>	<u>784,080</u>	<u>792,131</u>
Food expenses	3,555,242	-	-	3,555,242	3,105,303
Professional fees	6,173	22,163	82,479	110,815	86,905
Contracts - program-related	70,093	-	-	70,093	16,695
Contract and temporary services	63,678	-	-	63,678	29,697
Equipment repairs & maintenance	56,294	2,963	-	59,257	24,994
Utilities	52,948	5,883	-	58,831	68,193
Other expenses	22,488	4,698	18,470	45,655	38,146
Supplies	33,984	3,776	-	37,760	33,581
Insurance	19,429	12,952	-	32,381	26,450
Transportation and delivery	31,830	-	-	31,830	26,864
Rent	25,628	2,848	-	28,476	41,252
Travel	25,407	2,823	-	28,230	16,798
Meetings	7,343	6,008	-	13,351	8,582
Telephone	11,925	1,325	-	13,250	13,277
Facilities repairs and maintenance	8,151	906	-	9,057	8,728
Advertising	6,731	748	-	7,479	4,329
Total expenses before depreciation	<u>4,703,016</u>	<u>145,500</u>	<u>100,949</u>	<u>4,949,465</u>	<u>4,341,925</u>
Depreciation	<u>97,245</u>	<u>4,612</u>	<u>-</u>	<u>101,857</u>	<u>46,119</u>
Total Expenses	<u>\$ 4,800,261</u>	<u>\$ 150,112</u>	<u>\$ 100,949</u>	<u>\$ 5,051,322</u>	<u>\$ 4,388,044</u>

The accompanying notes are an integral part of these financial statements.

The Food Basket, Inc.  
(a not-for-profit organization)

Statements of Cash Flows

For the Year Ended December 31, 2018  
With Comparative Totals for 2017

	<u>2018</u>	<u>2017</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 269,636	\$ 305,554
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	101,857	46,119
Disposal of fixed assets	-	2,905
(Increase) decrease in:		
Accounts receivables	(439)	1,510
Grants receivables	(66,106)	29,707
Inventory	88,207	(145,040)
Prepaid expenses	30,950	(28,233)
Deposits	397	11,885
Increase (decrease) in:		
Accounts payable	8,554	(7,430)
Accrued liabilities	10,906	(10,666)
Deferred revenues	(11,251)	(19,421)
Other payables	(27,925)	-
Net cash provided by operating activities	<u>404,786</u>	<u>186,890</u>
Cash Flows From Investing Activities:		
Additions of property and equipment	<u>(327,773)</u>	<u>(165,025)</u>
Net cash used by operating activities	<u>(327,773)</u>	<u>(165,025)</u>
Cash Flows from Financing Activities:		
Short-term borrowing (repayment), net	(69,121)	29,874
Cash designated by donors and grantors	<u>(5,987)</u>	<u>(178,797)</u>
Net cash used in financing activities	<u>(75,108)</u>	<u>(148,923)</u>
Net increase (decrease) in cash and cash equivalents	1,905	(127,058)
Cash and cash equivalents - beginning of year	<u>116,126</u>	<u>243,184</u>
Cash and cash equivalents - end of year	<u>\$ 118,031</u>	<u>\$ 116,126</u>



THE FOOD BASKET, INC.  
(A not-for-profit organization)

December 31, 2018 and 2017

Notes to Financial Statements

1. Nature of Organization

The Food Basket, Inc. (the Organization) is a not-for-profit organization incorporated in the State of Hawaii in 2007.

The mission of the Organization is to feed the hungry in Hawaii County while attending to the root causes of this critical social problem. The Food Basket will accomplish its mission by:

- Preventing the waste of all edible food in Hawaii County;
- Feeding the hungry with this food;
- Educating the community about local hunger and what can be done to solve this social problem; and
- Collaborating with organizations of partnering missions to eradicate the root of hunger and other social ills: poverty.

The Food Basket was formerly a subsidiary of the Diocesan Administrative Offices of the Roman Catholic Church in the State of Hawaii known as the Hawaii Island Food Bank.

The Food Basket, Inc. acquires donated food through large food drives and via surplus food from local companies and the United States Department of Agriculture. The Organization distributes food to over 90 community groups, churches, and other not-for-profit organizations.

2. Summary of Significant Accounting Policies

Cash and Cash Equivalents – For purposes of the statements of cash flows, the Organization considers all unrestricted highly liquid instruments with a maturity of three months or less at the time of purchase to be cash equivalents.

Property and equipment – Property and equipment are recorded at cost less accumulated depreciation. Depreciation is provided on the straight-line method over the estimated useful lives of the assets.

Impairment of Long-Lived Assets – The Organization reviews its property for impairment whenever events or changes indicate that the carrying value of an asset may not be recoverable. The Organization compares the carrying value to its fair value in order to determine whether an impairment loss has occurred. For the year ended December 31, 2018, no impairment loss has been recognized.

Donated Food – The Food Basket reports the fair value of donated food over which it has control as unrestricted public support and, as an expense when distributed to member agencies. During the year ended December 31, 2018, the Food Basket distributed approximately 1.9 million pounds of donated and purchased products. The approximate value of one pound of donated product on the national level, which is determined to be \$1.68 for 2018 and \$1.73 in 2017, was based upon a study performed by Feeding America.

THE FOOD BASKET, INC.  
(A not-for-profit organization)

Notes to Financial Statements – continued

2. Summary of Significant Accounting Policies - continued

Inventory – Inventory consists of donated food items and is recorded at estimated fair value at the time of the donation. Donated food was valued at \$1.68 and \$1.73 per pound for the years ended December 2018 and 2017 respectively. The valuation is based on a study conducted by Feeding America

Use of Estimates – The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of financial statements in accordance with such generally accepted accounting principles 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 period. Actual results could differ from those estimates, and it is reasonably possible that such estimates may change within the near term.

Income Taxes – The Organization is exempt from federal income taxes under Section 501(c) (3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made for the accompanying statements.

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 December 31, 2018 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 no longer subject to examination by tax authorities for years ending before 2014.

Functional Expenses - The Food Basket allocates its expenses on a functional basis among its various program services and supporting activities. Expenses that can be identified with specific program and supporting activity are allocated directly according to their natural expenditure classification. Other expenses common to several functions are allocated by statistical basis.

Concentration of Credit Risk -. Financial instruments that potentially subject the Organization to credit risk include cash. The Organization's cash balances at financial institutions did not exceed the federal deposit insurance as of December 31, 2018.

THE FOOD BASKET, INC.  
(A not-for-profit organization)

Notes to Financial Statements – continued

2. Summary of Significant Accounting Policies - continued

Net Assets

Net assets, revenues, and gains are classified based on the existence or absence of donor grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follow:

- Net assets without donor restrictions – net assets available for use in general operations and not subject to donor or grantor restrictions.
- Net assets with donor restrictions – net assets subject to donor or grantor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Revenues and Revenue Recognition

- Revenue is recognized when earned. Program service fees and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed or expenditures are incurred, respectively.
- Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

3. Recent Accounting Guidance

On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The Food Basket, Inc. has implemented ASU 2016-14 and have adjusted the presentation in these financial statements accordingly.

4. Liquidity and Availability of Net Assets

The Organization's working capital and cash flows are fairly consistent throughout the year with an increase during the holiday season as various sources of donations and revenues are collected. Monthly cash outflows are also consistent throughout the year. The Organization's principal assets available within one year of the balance sheet date for general expenditures are as follows:

THE FOOD BASKET, INC.  
(A not-for-profit organization)

Notes to Financial Statements – continued

4. Liquidity and Availability of Net Assets – continued

	<u>Total</u> <u>12/31/2018</u>	<u>Total</u> <u>12/31/2017</u>
Cash and cash equivalents	\$ 118,031	\$ 116,126
Receivables	110,974	44,429
Total	<u>\$ 229,005</u>	<u>\$ 160,555</u>

5. Accounts Receivable

Accounts receivable amounted to \$5,218 and \$4,779 as of December 31, 2018 and 2017 respectively. All accounts were deemed collectible by the organization, hence, an allowance for doubtful accounts was deemed unnecessary.

6. Grants Receivable

Grants receivable amounted to \$105,756 and \$39,650 as of December 31, 2018 and 2017 respectively. Grant receivables comprise of contracts from the State of Hawaii and other private grants.

7. Property and Equipment

Property and equipment for the years ended December 31, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Building	\$ 57,160	\$ 57,160
Furniture and equipment	66,365	64,981
Warehouse equipment	128,411	91,858
Vehicles	382,251	168,146
Leasehold improvements	<u>784,244</u>	<u>784,244</u>
	1,418,431	1,166,389
Less accumulated depreciation	<u>(223,691)</u>	<u>(197,565)</u>
Net property and equipment	<u>\$ 1,194,740</u>	<u>\$ 968,824</u>

THE FOOD BASKET, INC.  
(A not-for-profit organization)

Notes to Financial Statements – continued

8. Leases

Building and Lease – Hilo Hawaii

The Food Basket purchased a building located on 40 Holomua Street, Hilo, Hawaii in the amount of \$57,160, with additional improvements. The land is situated on leasehold property which the Food Basket is leasing from the Department of Land and Natural Resources. The lease executed on May 24, 2011 grants the Food Basket a lease term commencing May 24, 2011 and ending January 15, 2016. The lease has been extended up to January 15, 2026. The annual lease rent is \$1,500 payable in an annual rental installment commencing on January 16, 2016 and every year during the term.

Building and Lease – Kailua-Kona, Hawaii

On December 15, 2015, the County of Hawaii, Office of Housing and Community Development entered into a lease agreement with the Food Basket for warehouse space located at Kailua–Kona, Hawaii. The term of the lease agreement is 10 years with the option to renew for additional five-year terms with lease rent based on square footage of 4,741 with the amounts for months 1-6 rent will be computed based on \$0.20, months 7-12 \$0.40 and years 2-5 \$0.40. Every five years, the rent will be adjusted according to 50% of the fair market value for unimproved commercial warehouse spaces as determine by the County of Hawaii and the Food Basket.

Minimum lease payments for the next five years are as follows:

Years:

2019	\$	24,257
2020		24,257
2021		24,257
2022		24,257
2023		24,257
Thereafter		50,014
	\$	<u>171,298</u>

9. Line of Credit

The Food Basket established a line of credit in the amount of \$250,000 pursuant to the Revolving Credit Agreement dated October 15, 2012. The line of credit was amended as of June 15, 2018. The date of maturity of the note is May 31, 2019 with an annual interest floor rate of 4.5%. No balance is due as of December 31, 2018.

THE FOOD BASKET, INC.  
(A not-for-profit organization)

Notes to Financial Statements – continued

10. Note Payable

In 2017, the Food Basket entered into two loan payables as follows:

- 5.25% note payable to bank in monthly installments of \$2,848 for 59 payments commencing on June 26, 2017. Note is due June 26, 2022.
- 3.647% note payable to bank in monthly installments of \$1,871 for 47 months commencing on November 16, 2017. Note is due November 16, 2021.

Future maturities of notes payable as of December 31, 2018 are as follows:

2019	\$ 49,672
2020	52,001
2021	52,571
2022	16,783
Total Notes Payable	<u>171,027</u>
Less current portion	<u>(49,672)</u>
	<u>\$ 121,355</u>

11. Donor Restricted Net Assets

Net assets with donor restrictions are restricted for the following purpose:

Lava Evacuees Assistance	\$ 80,119
Fresh Produce Programs	55,587
Hawaii Good Food Alliance	35,869
Keiki Backpack	11,542
Senior Brown Bags	<u>1,667</u>
Total	<u>\$ 184,784</u>

12. Prior Year Summarized Information

The financial statements include 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 Food Basket's financial statements as of and for the year ended December 31, 2017 from which the information was derived. Certain amounts in the prior year comparative information have been reclassified to conform to current year presentation.

THE FOOD BASKET, INC.  
(A not-for-profit organization)

Notes to Financial Statements – continued

13. Contingencies

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

14. Subsequent Events

Events that occur after the balance sheet date but before the financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the balance sheet date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the balance sheet date require disclosure in the accompanying notes. Management evaluated the activity of the Food Basket, Inc. through September 14, 2019 (the date the financial statements were available to be issued) and concluded that no additional subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.

The Food Basket, Inc.  
(a not-for-profit organization)

Schedule of Expenditures of Federal Awards

Year Ended December 31, 2018

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Contract Identification Number</u>	<u>Federal Expenditures</u>
<b><u>United States Department of Agriculture</u></b>			
National Institute of Food and Agriculture Food Insecurity Nutrition Incentive	10.331	2017-070025-26680	\$ 78,831
<b>Total United States Department of Agriculture</b>			<b>78,831</b>
<b><u>Pass-Through from State of Hawaii</u></b>			
USDA The Emergency Food Assistance Program - Food Commodities	10.569	OCS-TEFAP	930,876
USDA The Emergency Food Assistance - Administration	10.568	OCS-TEFAP	39,501
USDA Commodity Supplemental Food Program - Food Commodities	10.565	OCS-CSFP	615,942
USDA Commodity Supplemental Food Program - Administration	10.565	OCS-CSFP	69,440
Total USDA Food Assistance Cluster			<u>1,655,759</u>
United States Department of Agriculture State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	DHS-16-SNAP-3114	56,628
<b>Total Pass-Through from the State of Hawaii</b>			<b><u>1,712,387</u></b>
<b><u>Pass-Through from The County of Hawaii</u></b>			
United States Department of Housing and Urban Development (HUD) Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii - CDBG	14.228		196,476
<b>Total Pass-Through from the County of Hawaii</b>			<b><u>196,476</u></b>
<b><u>Pass-Through from The Kohala Center</u></b>			
National Institute of Food and Agriculture Community Food Projects	2017-33800-27041	2017-33800-27041	61,466
<b>Total Pass-Through from Kohala Center</b>			<b><u>61,466</u></b>
Total Expenditure of Federal Awards			<b><u>\$ 2,049,160</u></b>

The accompanying notes are an integral part of this schedule.



The Food Basket, Inc.

Notes to the Schedule of Expenditures of Federal Awards

For the Year Ended December 31, 2018

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal award activity of the Food Basket, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of The Food Basket, Inc., it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3. Indirect Cost Rate

The Organization has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

**Ann N. Fukuhara, CPA MBA**  
**An Accountancy Corporation**

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

The Board of Directors  
The Food Basket, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the Food Basket, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 14, 2019.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Food Basket, Inc.'s internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Food Basket, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Food Basket, Inc.'s internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Food Basket, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance

with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Association's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Ann Fukuhara*

Ann Fukuhara, CPA MBA, An Accountancy Corporation  
Hilo, Hawaii  
September 14, 2019

**Ann N. Fukuhara, CPA MBA**  
**An Accountancy Corporation**

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

The Board of Directors  
The Food Basket, Inc.

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

We have audited the Food Basket, Inc.'s compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on each of the Food Basket, Inc.'s major federal programs for the year ended December 31, 2018. The Food Basket, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the Food Basket, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Food Basket, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Food Basket, Inc.'s compliance.

**Opinion on Each Major Federal Program**

In our opinion, the Food Basket, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2018.

## Report on Internal Control over Compliance

Management of the Food Basket, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Food Basket, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Food Basket, Inc.'s internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness* in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Ann Fukuhara*

Ann Fukuhara, CPA MBA, An Accountancy Corporation  
September 14, 2019  
Hilo, Hawaii

The Food Basket, Inc.  
 Schedule of Findings and Questioned Costs  
 Year Ended December 31, 2018

**SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

Type of auditor's report issued: **Unmodified**

Internal control over financial reporting:

Material weakness(es) identified?  Yes  No

Significant deficiencies identified?  Yes  **None Reported**

Noncompliance material to financial statements noted?  Yes  No

**Federal Awards**

Internal control over major programs:

Material weakness(es) identified?  Yes  No

Significant deficiencies identified?  Yes  **None Reported**

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

Any audit findings disclosed that are required to be reported in accordance 2 CFR section 200.516(a)?  Yes  No

The programs tested as major programs are as follows:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.569	USDA Emergency Food Assistance – Food Commodities Program (Cluster)
10.565	USDA Commodity Supplemental Food Program (Cluster)

The threshold for distinguishing Types A and B programs: \$750,000.

The Food Basket, Inc. qualified as a low-risk auditee:  Yes  No

**FINDINGS – FINANCIAL STATEMENTS AUDIT**

None

**FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT**

None