

The Food Basket, Inc.

(A Not-for-Profit Organization)

Financial Statements

December 31, 2019

(With Summarized Information for the Year Ended December 31, 2018)

(With Independent Auditor's Reports Thereon)

The Food Basket Inc,
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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, 2019 and 2018, 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, 2019 and 2018, 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 2018 financial statements, and we have expressed an unmodified audit opinion on those audited financial statements in our report dated September 14, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018 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 25, 2020, 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 25, 2020
Hilo, Hawaii

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

Statement of Financial Position

December 31, 2019
(With Comparative Information as of December 31, 2018)

	2019	2018
ASSETS		
Cash and cash equivalents	\$ 285,456	\$ 118,031
Accounts receivable	5,221	5,218
Grants receivables	128,233	105,756
Pledges receivables	202,500	-
Inventory	421,916	761,993
Property and equipment, net of accumulated depreciation of \$362,825 for 2019 and \$223,691 for 2018	1,280,614	1,194,740
Deposits	12,616	6,301
Prepaid expense	25,428	16,467
Cash - designated by donors	265,964	184,784
Total assets	2,627,948	2,393,290
 LIABILITIES AND NET ASSETS		
Accounts payable	49,147	41,628
Accrued expenses	79,469	61,992
Deferred revenues	14,844	9,064
Current portion of notes payable	52,001	49,672
Total current liabilities	195,461	162,356
 Long-term portion of notes payable	 69,080	 121,355
 Net Assets:		
Without donor restrictions	2,097,443	1,924,795
With donor restrictions	265,964	184,784
Total net assets	2,363,407	2,109,579
Total liabilities and net assets	\$ 2,627,948	\$ 2,393,290

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

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

Statement of Activities

For the Year Ended December 31, 2019
(With Summarized Information for the Year Ended December 31, 2018)

	Without Donor Restrictions	With Donor Restrictions	2019 Total	2018 Total
REVENUES, GAINS AND OTHER SUPPORT				
Revenues and support				
Donations	\$ 4,403,272	\$ 242,582	\$ 4,645,854	\$ 4,408,434
Government contracts - State of Hawaii	258,253	-	258,253	230,224
County of Hawaii - contract	36,226	-	36,226	41,437
Federal grants	412,961	-	412,961	275,306
United Way and combined federal campaign	27,145	10,333	37,478	16,492
Program service fees	302,170	-	302,170	281,251
Special events	-	-	-	61,965
Interest income	30	-	30	4
Other income	6,865	-	6,865	5,845
Total revenues and gains	5,446,922	252,915	5,699,837	5,320,958
Net assets released from restrictions satisfaction				
Satisfied by expenditures	171,735	(171,735)	-	-
Total revenues	5,618,657	81,180	5,699,837	5,320,958
EXPENSES				
Program expenses	5,195,440	-	5,195,440	4,800,261
General & administrative	161,433	-	161,433	150,112
Fundraising	89,136	-	89,136	100,949
	5,446,009	-	5,446,009	5,051,322
Change in net assets	172,648	81,180	253,828	269,636
Net assets, beginning of year	1,924,795	184,784	2,109,579	1,839,943
Net assets, end of year	\$ 2,097,443	\$ 265,964	\$ 2,363,407	\$ 2,109,579

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

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

Statement of Functional Expenses

For the Year Ended December 31, 2019
(With Summarized Information for the Year Ended December 31, 2018)

	Program Expenses	General and Administrative	Fundraising	2019 Total	2018 Total
Salaries	\$ 547,595	\$ 60,844	\$ -	\$ 608,439	\$ 558,039
Other employee benefits	167,338	18,593	-	185,931	161,309
Payroll taxes	63,521	7,058	-	70,579	64,732
Total salaries and related expenses	<u>778,454</u>	<u>86,495</u>	<u>-</u>	<u>864,949</u>	<u>784,080</u>
Food expenses	3,808,145	-	-	3,808,145	3,555,242
Professional fees	51,013	16,723	84,292	152,028	174,493
Contracts - program-related	110,177	-	-	110,177	70,093
Equipment repairs & maintenance	27,913	1,469	-	29,382	59,257
Utilities	67,378	7,486	-	74,864	58,831
Other expenses	17,140	2,443	4,844	24,427	45,655
Supplies	25,519	2,835	-	28,354	37,760
Insurance	22,221	14,814	-	37,035	32,381
Transportation and delivery	35,276	-	-	35,276	31,830
Rent	40,028	4,448	-	44,476	28,476
Travel	28,001	3,111	-	31,112	28,230
Meetings	9,768	7,992	-	17,760	13,351
Telephone	11,678	1,298	-	12,976	13,250
Facilities repairs and maintenance	18,712	2,079	-	20,791	9,057
Advertising	487	54	-	541	7,479
Total expenses before depreciation	<u>5,051,910</u>	<u>151,247</u>	<u>89,136</u>	<u>5,292,293</u>	<u>4,949,465</u>
Depreciation	<u>143,530</u>	<u>10,186</u>	<u>-</u>	<u>153,716</u>	<u>101,857</u>
Total Expenses	<u>\$ 5,195,440</u>	<u>\$ 161,433</u>	<u>\$ 89,136</u>	<u>\$ 5,446,009</u>	<u>\$ 5,051,322</u>

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

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

Statement of Cash Flows

For the Year Ended December 31, 2019
(With Comparative Information for the Year Ended December 31, 2018)

	<u>2019</u>	<u>2018</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 253,828	\$ 269,636
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	153,716	101,857
(Increase) decrease in:		
Accounts receivables	(3)	(439)
Grants receivables	(22,477)	(66,106)
Pledges receivables	(202,500)	-
Inventory	340,077	88,207
Prepaid expenses	(8,961)	30,950
Deposits	(6,315)	397
Increase (decrease) in:		
Accounts payable	7,519	8,554
Accrued liabilities	17,477	10,906
Deferred revenues	5,780	(11,251)
Other payables	-	(27,925)
Net cash provided by operating activities	<u>538,141</u>	<u>404,786</u>
Cash Flows From Investing Activities:		
Additions of property and equipment	<u>(239,589)</u>	<u>(327,773)</u>
Net cash used by operating activities	<u>(239,589)</u>	<u>(327,773)</u>
Cash Flows from Financing Activities:		
Short-term borrowing (repayment), net	(49,947)	(69,121)
Cash designated by donors and grantors	<u>(81,180)</u>	<u>(5,987)</u>
Net cash used in financing activities	<u>(131,127)</u>	<u>(75,108)</u>
Net increase (decrease) in cash and cash equivalents	167,425	1,905
Cash and cash equivalents - beginning of year	<u>118,031</u>	<u>116,126</u>
Cash and cash equivalents - end of year	<u>\$ 285,456</u>	<u>\$ 118,031</u>

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

Notes to Financial Statements

December 31, 2019
(With Summarized Information for the Year Ended December 31, 2018)

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, 2019, 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 years ended December 31, 2019 and 2018, the Food Basket distributed approximately 2.2 million and 1.9 million pounds of donated and purchased products respectively. The approximate value of one pound of donated product on the national level, which is determined to be \$1.62 for 2019 and \$1.68 in 2018, was based upon a study performed by Feeding America.

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

Notes to Financial Statements

December 31, 2019
(With Summarized Information for the Year Ended December 31, 2018)

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 \$1.62 and \$1.68 per pound for the years ended December 2019 and 2018 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, 2019 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 2015.

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, 2019.

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.

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

Notes to Financial Statements

December 31, 2019
(With Summarized Information for the Year Ended December 31, 2018)

2. Summary of Significant Accounting Policies – continued

Net Assets - continue

- 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.
- In June 2018, the FASB issued ASU No. 2018-08 - Not-for Profit Entities (Topic 958): *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* to improve the scope and accounting guidance for contributions received and contributions made. This ASU includes specific criteria to consider when determining whether a contract or agreement should be accounted for as a contribution or as an exchange transaction. ASU No. 2018-08 also provides a framework to determine whether a contribution is conditional or unconditional, which may impact the timing of revenue recognition. Under the new guidance, if a transaction is considered an exchange transaction, it is accounted for under the applicable revenue recognition standards. The Food Basket adopted this standard for contributions received for the fiscal year ended December 31, 2019. The adoption of this standard resulted in most grants being accounted for as contributions. The Food Basket does not make significant contributions and the impact of ASU No. 2018-08 related to contributions made is not expected to be material to the financial statement or disclosures.

THE FOOD BASKET, INC.
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Notes to Financial Statements

December 31, 2019

(With Summarized Information for the Year Ended December 31, 2018)

4. Upcoming New Accounting Pronouncements

The Financial Accounting Standards Board (FASB) met on May 20, 2020 and voted to extend the effective date of Topic 606, Revenue from Contracts with Customers, and 842, Leases for certain entities due to the Covid-19 pandemic. The following accounting pronouncements will be adopted after the Food Basket evaluates the impact on its financial statements

- In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* which supersedes the requirements in ASC Topic 840, *Leases*. ASU No. 2016-02 requires the recognition of lease assets and lease liabilities by lessees for all leases, including operating leases, with a term greater than 12 months. Under the guidance of ASU No. 2016-02, a lessee should recognize in the balance sheet a liability to make lease payments (lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. The accounting applied by a lessor under ASU No. 2016-02 is largely unchanged from that applied under ASC Topic 840. The Food Basket is currently in the process of evaluating the impact of the new standard on its financial statements.
- In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requires entities to recognize revenue when control of the promised goods or services is transferred to customers at an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. The Food Basket is in the process of evaluating the impact of this pronouncement on its financial statements.

5. 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:

	Total <u>12/31/2019</u>	Total <u>12/31/2018</u>
Cash and cash equivalents	\$ 285,456	\$ 118,031
Receivables	335,954	110,974
Total	<u>\$ 621,410</u>	<u>\$ 229,005</u>

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

Notes to Financial Statements

December 31, 2019

(With Summarized Information for the Year Ended December 31, 2018)

6. Accounts Receivable

Accounts receivable amounted to \$5,221 and \$5,218 as of December 31, 2019 and 2018 respectively. All accounts were deemed collectible by the organization, hence, an allowance for doubtful accounts was deemed unnecessary.

7. Grants Receivable

Grants receivable amounted to \$128,233 and \$105,756 as of December 31, 2019 and 2018 respectively. Grant receivables comprise of contracts from the State of Hawaii and other private grants.

8. Pledges Receivable

Pledges receivable amounted to \$202,500 as of December 31, 2019. Pledges receivables comprise of private grants from various Foundations and other organizations The Food Basket anticipates collection of all outstanding pledges as of December 31, 2019.

9. Property and Equipment

Property and equipment for the years ended December 31, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Building	\$ 57,160	\$ 57,160
Furniture and equipment	70,356	66,365
Warehouse equipment	176,564	128,411
Vehicles	525,438	382,251
Leasehold improvements	<u>813,921</u>	<u>784,244</u>
	1,643,439	1,418,431
Less accumulated depreciation	<u>(362,825)</u>	<u>(223,691)</u>
Net property and equipment	<u>\$ 1,280,614</u>	<u>\$ 1,194,740</u>

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

Notes to Financial Statements

December 31, 2019

(With Summarized Information for the Year Ended December 31, 2018)

10. 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:

2020	\$	24,257
2021		24,257
2022		24,257
2023		24,257
Thereafter		<u>25,757</u>
	\$	<u>122,784</u>

THE FOOD BASKET, INC.
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Notes to Financial Statements

December 31, 2019
(With Summarized Information for the Year Ended December 31, 2018)

11. Unused 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 May 17, 2019. The date of maturity of the note is May 31, 2020 with an annual interest floor rate of 4.5%. No balance is due as of December 31, 2019.

12. Notes 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, 2019 are as follows:

2020	\$ 52,001
2021	52,571
2022	16,509
Total Notes Payable	<u>121,081</u>
Less current portion	(52,001)
	<u>\$ 69,080</u>

13. Donor Restricted Net Assets

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

For the year ended December 31, 2018

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>

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

Notes to Financial Statements

December 31, 2019

(With Summarized Information for the Year Ended December 31, 2018)

13. Donor Restricted Net Assets – continued

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

For the year ended December 31, 2019:

	2019
Double Up Food Bucks	\$ 99,750
Fresh Produce Programs	54,116
Keiki Backpack	28,141
Hawaii Good Food Alliance	20,683
Senior Brown Bags	8,000
Other Donor Restricted	55,273
	<u>\$ 265,963</u>

14. 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, 2018 from which the information was derived. Certain amounts in the prior year comparative information have been reclassified to conform to current year presentation.

15. 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.

16. Subsequent Events

In December 2019, a novel strain of coronavirus was reported to have surfaced in China. The spread of this virus may have the potential of certain business disruptions. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration and the expected consequences on the United States economy. Therefore, the financial impact and duration cannot be reasonably estimated at this time.

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Schedule of Expenditures of Federal Awards

Year Ended December 31, 2019

Federal Grantor/Pass-Through <u>Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Contract Identification Number</u>	<u>Federal Expenditures</u>
<u>United States Department of Agriculture</u>			
National Institute of Food and Agriculture Food Insecurity Nutrition Incentive	10.331	2017-070025-26680	\$ 152,302
	10.331	2019-70030-30403	\$ 25,332
Total United States Department of Agriculture			<u>177,634</u>
<u>Pass-Through from State of Hawaii</u>			
United States Department of Agriculture USDA The Emergency Food Assistance Program - Food Commodities	10.569	OCS-TEFAP	1,242,626
USDA The Emergency Food Assistance - Administration	10.568	OCS-TEFAP	67,677
USDA Commodity Supplemental Food Program - Food Commodities	10.565	OCS-CSFP	597,323
USDA Commodity Supplemental Food Program - Administration	10.565	OCS-CSFP	74,838
Total USDA Food Assistance Cluster			* <u>1,982,464</u>
United States Department of Agriculture State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	DHS-16-SNAP-3114	55,031
USDA Trade Mitigation Program Eligible Recipient Agency Operational Funds	10.178	OCS-TEFAP	2,867
Total Pass-Through from the State of Hawaii			<u>2,040,362</u>
<u>Pass-Through from The County of Hawaii</u>			
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		235,327
Total Pass-Through from the County of Hawaii			<u>235,327</u>
<u>Pass-Through from The Kohala Center</u>			
National Institute of Food and Agriculture Community Food Projects	2017-33800-27041	2017-33800-27041	58,538
Total Pass-Through from Kohala Center			<u>58,538</u>
Total Expenditure of Federal Awards			<u>\$ 2,511,861</u>

* Denotes major program

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, 2019

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.

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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 not-for-profit organization), which comprise the statement of financial position as of December 31, 2019, 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 25, 2020.

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 25, 2020

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, 2019. 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, 2019.

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 25, 2020
Hilo, Hawaii

The Food Basket, Inc.
Schedule of Findings and Questioned Costs
Year Ended December 31, 2019

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