

KAUAI FOOD BANK

**Audited Financial Statements
For the Year Ended December 31, 2016**

(With summarized financial information
for the year ended December 31, 2015)

Russell Yamane & Associates CPAs, Inc.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors
Kauai Food Bank, Inc.
Lihue, Kauai, Hawaii

Report on Financial Statements

We have audited the accompanying statements of the financial position of Kauai Food Bank, Inc. (a nonprofit organization) (d.b.a. Kauai Independent Food Bank - KIFB), which comprise the statement of financial position as of as of December 31, 2016, 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 value 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of KIFB as of December 31, 2016, and the results of its activities and changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the KIFB 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 31, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Russell Yamane & Associates CPAs, Inc.

Wailuku, Hawaii
April 11, 2017

KAUAI FOOD BANK INC.
Statement of Financial Position
December 31, 2016

(With summarized financial information for the year ended December 31, 2015)

	<u>2016</u>	<u>2015</u>
Assets		
Current Assets:		
Cash and cash equivalents	\$ 132,594	\$ 95,595
Grants receivable	33,665	1,483
Inventory	87,295	79,586
Other current assets	14,253	12,710
Total current assets	<u>267,808</u>	<u>189,374</u>
Investments	149,807	193,326
Fixed Assets:		
Furniture, Equipment, and Software	190,914	167,452
Vehicles	50,251	50,251
Leasehold improvements	22,891	22,891
Total fixed assets	<u>264,056</u>	<u>240,594</u>
Less accumulated depreciation	<u>(243,976)</u>	<u>(239,600)</u>
Net fixed assets	<u>20,080</u>	<u>994</u>
Deposit	<u>2,080</u>	<u>2,080</u>
Total Assets	<u><u>\$ 439,775</u></u>	<u><u>\$ 385,774</u></u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 5,638	\$ 3,685
Accrued payroll and related liabilities	18,503	18,621
Total current liabilities	<u>24,142</u>	<u>22,306</u>
Net Assets:		
Unrestricted	278,690	243,740
Temporarily restricted	136,943	119,728
Total net assets	<u>415,633</u>	<u>363,468</u>
Total Liabilities and Net Assets	<u><u>\$ 439,775</u></u>	<u><u>\$ 385,774</u></u>

The accompanying notes and independent auditors' report are an integral part of the financial statements.

KAUAI FOOD BANK, INC.
Statement of Activities and Changes in Net Assets
For the year ended December 31, 2016

(With summarized financial information for the year ended December 31, 2015)

	<u>2016</u>			<u>2015</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Total</u>
Support and Revenue:				
Contributions	\$ 143,998	\$ 5,350	\$ 149,348	222,704
Grants and foundations	59,573	166,505	226,079	97,101
Food contributions	311,306	78,737	390,043	403,513
Special events	28,121	-	28,121	29,635
Shared Maintenance Cost fees	15,232	2,683	17,915	19,689
Interest and dividends	3,122	-	3,122	4,106
Other	325	90	415	1,302
Appreciation (Depreciation) marketable securities	6,398	-	6,398	(5,318)
Total support and revenue	<u>568,076</u>	<u>253,365</u>	<u>821,441</u>	<u>772,732</u>
Expenses:				
Program services	658,368	-	658,368	668,598
Administrative and General	52,819	-	52,819	61,162
Fundraising	58,090	-	58,090	69,458
Total expenses	<u>769,276</u>	<u>-</u>	<u>769,276</u>	<u>799,218</u>
Change in Net Assets	(201,200)	253,365	52,165	(26,486)
Net Assets, Beginning of Year	243,740	119,728	363,468	389,954
Net assets released from restriction	236,150	(236,150)	-	-
Net Assets, End of Year	<u>\$ 278,690</u>	<u>\$ 136,943</u>	<u>\$ 415,633</u>	<u>\$ 363,468</u>

The accompanying notes and independent auditors' report are an integral part of these financial statements.

KAUAI FOOD BANK, INC.
Statement of Functional Expenses
For the year ended December 31, 2016

(With summarized financial information for the year ended December 31, 2015)

	2016			2015	
	<u>Program Services</u>	<u>Administrative and General</u>	<u>Fund Raising</u>	<u>Total</u>	<u>Total</u>
Wages and related costs	\$ 143,592	\$ 19,259	\$ 28,946	\$ 191,797	\$ 197,859
Volunteer expenses	71	-	-	71	288
Purchased food	42,605	-	-	42,605	32,103
Donated food	384,337	-	-	384,337	417,802
Professional services	5,014	21,208	7,267	33,489	42,019
Occupancy costs	40,295	5,405	8,123	53,823	54,172
Insurance	7,014	3,005	1,342	11,361	9,938
Supplies, printing, postage	1,446	533	5,444	7,423	15,504
Communication	3,341	448	674	4,463	4,777
Vehicle costs	6,776	-	-	6,776	6,438
Direct mail expense	-	-	5,356	5,356	1,767
Equipment repairs	13,411	-	-	13,411	1,274
Travel, training, meetings	5,829	1,065	-	6,894	8,040
Depreciation	4,375	-	-	4,375	4,583
Miscellaneous	261	1,896	937	3,094	2,654
	<u>\$ 658,368</u>	<u>\$ 52,819</u>	<u>\$ 58,090</u>	<u>\$ 769,276</u>	<u>\$ 799,218</u>

The accompanying notes and independent auditors' report are an integral part of these financial statements.

KAUAI FOOD BANK, INC.
Statement of Cash Flows
For the year ended December 31, 2016

(With summarized financial information for the year ended December 31, 2015)

	<u>2016</u>	<u>2015</u>
Cash Flows from Operating Activities:		
Change in net assets	\$ 52,165	\$ (26,486)
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities		
Depreciation	4,376	4,583
Net (appreciation)/depreciation of investments	(6,398)	(5,318)
(Increase) decrease in receivables	(32,182)	(386)
(Increase) decrease in inventory	(7,709)	13,955
(Increase) decrease in other current assets	(1,543)	2,834
Increase (decrease) in accounts payable	1,953	521
Increase (decrease) in accrued payroll costs	(118)	329
Net cash provided by (used in) operating activities	10,544	(9,968)
Cash Flows from Investing Activities:		
Change in marketable securities, net	49,917	8,385
Capital Expenditures	(23,462)	-
Net cash provided by (used in) Investing activities	26,455	8,385
Net Change in Cash	36,999	(1,583)
Cash Balance, Beginning of Year	95,595	97,178
Cash Balance, End of Year	\$ 132,594	\$ 95,595
<u>Non-cash operating activities</u>		
Food contributions revenue	\$ 390,043	\$ 403,513
Cost of donated food distributed	\$ 384,337	\$ 417,802

The accompanying notes and independent auditors' report are an integral part of these financial statements.

KAUAI FOOD BANK, INC.
Notes to the Financial Statements
For the year ended December 31, 2016

(With summarized information for the year ended December 31, 2015)
(See independent auditors' report)

1. Nature Of Activities

The Kauai Food Bank, Inc. (d.b.a. Kauai Independent Food Bank – KIFB) was incorporated under the laws of the State of Hawaii as a nonprofit corporation on December 16, 1994. KIFB's mission is to educate, provide nutritious food for the hungry and respond to emergencies.

2. Summary Of Significant Accounting Policies

Basis of Accounting -

The financial statements are prepared in accordance with generally accepted accounting principles in the United State of America. Contributions are recognized when received and expenses are recognized when incurred.

Financial Statement Presentation Framework –

KIFB prepares its financial statements in accordance with Financial Standards Board Accounting Standards Codification (ASC) 958-205 “*Presentation of Financial Statements*”.

Under this standard, the net assets, revenues, expenses, gains and losses are reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of KIFB and/or the passage of time.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by KIFB.

Contributions are reported as increases in unrestricted net assets unless use of the related revenue is restricted by donor-imposed stipulations. Expenses are reported as decreases in unrestricted net assets. Expirations of temporary restrictions on net assets, such as fulfillment of donor-stipulated purpose and/or the stipulated time period has elapsed, are reported as reclassifications between the applicable classes of net assets. Gains or losses and earnings on investments are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

Cash and Cash Equivalents

KIFB considers all highly liquid short-term investments with maturities of three-months or less to be cash equivalents. The FDIC insures \$250,000 per deposit account. As of December 31, 2015, KIFB did not have any accounts in excess of insured limits.

KAUAI FOOD BANK, INC.
Notes to the Financial Statements
For the year ended December 31, 2016

(With summarized information for the year ended December 31, 2015)
(See independent auditors' report)

Marketable Securities -

Investments in marketable securities are stated at fair value based on a framework that provides for a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

The three levels of investments are as follows: **Level 1** - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that KIFB has the ability to access; **Level 2** – Inputs to the valuation methodology 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, or inputs that are derived principally from or corroborated by observable market data by correlation or other means; **Level 3** – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Inventory -

The inventory cost is valued using first-in, first-out (FIFO) method. The purchased food is stated at cost and is valued at the USDA estimated cost-per-pound of \$1.59.

Property and Equipment -

Property and equipment is recorded at cost and depreciated over periods of 3-39 years using the straight-line method. Gains and losses from the retirement or replacement of property and equipment are included in the statement of activities.

Contributions -

Contributions are recorded when received and are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily or permanently restricted support which increase such net asset classes. When a donor time restriction expires or when contributions have been used for their designated purpose, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restriction.

KAUAI FOOD BANK, INC.
Notes to the Financial Statements
For the year ended December 31, 2016

(With summarized information for the year ended December 31, 2015)
(See independent auditors' report)

Contributions In-Kind -

Contributions in-kind are recognized in accordance with generally accepted accounting standards. Donated equipment and other donated goods are recorded at their estimated fair value as of the date of the donation. Contributed services which require a specialized skill and which KIFB would have paid for if not donated, are recorded at the estimated fair value at the time the services are rendered. KIFB also receives donated volunteer services that do not require specific expertise but which are nonetheless essential to KIFB operations.

Donated Food -

Food donations are recorded when received by KIFB. These items are capitalized as food inventory and recorded as unrestricted contributions. The donated food is valued at the USDA estimated cost-per-pound of \$1.59. Upon distribution, food inventory is reduced and an expense is charged to Donated Food.

Shared Maintenance Cost (SMC) -

SMC fees are charged to the agencies to which KIFB distributes food to assist with costs associated with receiving, storing, and distributing inventory. During the years ended December 31, 2016 and 2015, the maximum fees charged for SMC fees were \$.19 per pound.

Compensated Absence -

Employees at KIFB are entitled to paid vacation depending on the job classification, length of service and other factors. Accrued compensated absences represent KIFB's liability for the cost of unused vested employee vacation. At December 31, 2016 and 2015 accrued vacation balances were \$10,575 and \$13,508, respectively.

Use of Estimates -

The preparation of the financial statements in conformity with 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Risks and Uncertainties -

Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the fair value amounts reported on the financial statements.

KAUAI FOOD BANK, INC.
Notes to the Financial Statements
For the year ended December 31, 2016

(With summarized information for the year ended December 31, 2015)

(See independent auditors' report)

3. Marketable Securities

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2015 and 2014.

Investments in mutual funds are managed by investment companies registered with the Securities and Exchange Commission. The value of each fund is determined at the close of each day based on fair value and are traded in active markets. Purchase and sale of units are performed at the end of the day once the value for that day has been set. Income, gains, or losses from the assets in each fund are credited to or charged against that fund without regard to other income, gains or losses of other funds. All mutual funds above are Level 1 investments.

Investments in exchange traded funds (ETF) are registered with the Securities and Exchange Commission and are similar to mutual funds. ETFs are valued throughout the trading day and can be purchased or sold at any time during this period similar to stocks. The value of each fund is determined based on the fair value at the close of the trading day. ETFs are traded in active markets. Income, gains, or losses from the assets in each fund are credited to or charged against that fund without regard to other income, gains or losses of other funds. All ETFs are Level 1 investments.

	2016	2015
	<u>Fair Value</u>	<u>Fair Value</u>
Money funds	\$ 15,114	\$ 17,815
Mutual funds	47,033	59,202
Equity securities	51,589	-
Exchange traded funds	36,071	116,309
	<u>\$ 149,807</u>	<u>\$ 193,326</u>

4. Income Taxes

KIFB is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and similar State provisions.

KIFB files its form 990 in the U.S. federal jurisdiction and the office of the state's attorney general for the State of Hawaii. KIFB is generally no longer subject to examination by the Internal Revenue Service for years before 2013.

KAUAI FOOD BANK, INC.
Notes to the Financial Statements
For the year ended December 31, 2016

(With summarized information for the year ended December 31, 2015)
(See independent auditors' report)

5. Subsequent Events

In preparing the financial statements management has evaluated the subsequent events and transactions for potential recognition or disclosure through April 11, 2017 the date the financial statements were available to be issued. There are no subsequent events that would have a material effect on the financial statements or that would require disclosure.