

# **HAWAII FOODBANK, INC.**

## **FINANCIAL STATEMENTS, INDEPENDENT AUDITOR'S REPORTS, AND SUPPLEMENTARY SCHEDULE**

**As of and for the Year Ended June 30, 2023  
(With Prior Year Comparative Information)**



**HAWAII FOODBANK, INC.**

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# **HAWAII FOODBANK, INC.**

## **FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT**

**As of and for the Year Ended June 30, 2023  
(With Prior Year Comparative Information)**



## INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

Hawaii Foodbank, Inc.:

### Report on the Audit of the Financial Statements

#### *Opinion*

We have audited the financial statements of Hawaii Foodbank, Inc. (Organization), a nonprofit Hawaii corporation, which comprise the statement of financial position as of June 30, 2023, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of June 30, 2023, 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 (U.S. GAAP).

#### *Basis for Opinion*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (U.S. GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Change in Accounting Principle*

As discussed in Note A to the financial statements, during the year ended June 30, 2023, the Organization adopted Accounting Standards Update No. 2016-02, *Leases (Topic 842) – Leases: Amendments to the FASB Accounting Standards Codification*. Our opinion is not modified with respect to this matter.

### *Responsibilities of Management for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for one year after the date the financial statements are issued.

### *Auditor's Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with U.S. GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with U.S. GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### *Supplementary 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 the audit requirements of 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 U.S. GAAS. In our opinion, the accompanying Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

### *Report on Prior Year Summarized Comparative Information*

We have previously audited the Organization's June 30, 2022 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 31, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022 is consistent, in all material respects, with the audited financial statements from which it has been derived.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 5, 2024 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

*CW Associates, CPAs*

CW Associates, CPAs  
Honolulu, Hawaii  
March 5, 2024



**HAWAII FOODBANK, INC.**

**STATEMENT OF FINANCIAL POSITION**

**As of June 30, 2023  
(With Prior Year Comparative Information)**

	<u>2023</u>	<u>2022</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 2,828,162	\$ 4,275,331
Receivables – net	2,281,483	2,883,474
Pledge receivable – net	25,000	115,000
Inventory – net	1,509,750	1,528,938
Investments in marketable securities	7,752,529	7,474,884
Prepaid expenses and other assets	90,525	103,953
Total current assets	<u>14,487,449</u>	<u>16,381,580</u>
<b>NONCURRENT ASSETS</b>		
Cash and cash equivalents – board designated	717,507	750,603
Investments in marketable securities – board designated	10,707,493	10,549,397
Pledge receivable – noncurrent, net	-	87,379
Property and equipment – net	5,371,904	5,485,908
Beneficial interest in perpetual trust	228,805	216,528
Operating lease right-of-use assets – net	974,008	-
Total noncurrent assets	<u>17,999,717</u>	<u>17,089,815</u>
<b>TOTAL ASSETS</b>	<u>\$32,487,166</u>	<u>\$33,471,395</u>

(Continued)

**HAWAII FOODBANK, INC.**

**STATEMENT OF FINANCIAL POSITION (Continued)**

**As of June 30, 2023  
(With Prior Year Comparative Information)**

	<u>2023</u>	<u>2022</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 241,487	\$ 265,147
Accrued liabilities	398,791	542,617
Due to agencies	46,625	783,549
Operating lease liabilities – current	200,893	-
Refundable advances	-	107,212
Total current liabilities	<u>887,796</u>	<u>1,698,525</u>
ASSET RETIREMENT OBLIGATION	46,009	43,405
OPERATING LEASE LIABILITIES – Noncurrent	<u>787,115</u>	<u>-</u>
TOTAL LIABILITIES	<u>1,720,920</u>	<u>1,741,930</u>
NET ASSETS		
Net assets without donor restrictions		
Undesignated	11,978,538	13,043,219
Board designated	11,425,000	11,300,000
Invested in property and equipment	3,709,570	3,655,147
Total net assets without donor restrictions	<u>27,113,108</u>	<u>27,998,366</u>
Net assets with donor restrictions	<u>3,653,138</u>	<u>3,731,099</u>
Total net assets	<u>30,766,246</u>	<u>31,729,465</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$32,487,166</u>	<u>\$33,471,395</u>

See accompanying notes to the financial statements.



**HAWAII FOODBANK, INC.**

**STATEMENT OF ACTIVITIES**

**For the Year Ended June 30, 2023  
(With Prior Year Comparative Information)**

	<u>2023</u>	<u>2022</u>
<b>CHANGES IN NET ASSETS</b>		
<b>WITHOUT DONOR RESTRICTIONS</b>		
Revenue and support		
Food contributions	\$ 26,250,853	\$ 24,837,666
Contributions from the public without donor restrictions	9,857,506	9,787,647
Public and private grants without donor restrictions	3,019,226	4,176,392
Net assets released from donor restrictions	1,399,308	1,783,424
In-kind donations	1,266,509	789,203
Shared maintenance fees	748,568	537,990
Investment income (loss) – net	372,203	(1,479,280)
Gain (loss) on sale of asset	2,720	(41,697)
Other income	143,928	31,973
Total revenue and support	<u>43,060,821</u>	<u>40,423,318</u>
Expenses		
Program services	<u>39,813,671</u>	<u>39,305,554</u>
Supporting services		
Fundraising and development	2,280,259	1,857,989
Management and general	1,852,149	1,436,814
Total supporting services	<u>4,132,408</u>	<u>3,294,803</u>
Total expenses	<u>43,946,079</u>	<u>42,600,357</u>
Decrease in net assets without donor restrictions	<u>(885,258)</u>	<u>(2,177,039)</u>
<b>CHANGES IN NET ASSETS</b>		
<b>WITH DONOR RESTRICTIONS</b>		
Contributions and grants with donor restrictions	1,309,070	3,003,127
Change in value of beneficial interest in perpetual trust	12,277	(50,409)
Net assets released from donor restrictions	<u>(1,399,308)</u>	<u>(1,783,424)</u>
Increase (decrease) in net assets with donor restrictions	<u>(77,961)</u>	<u>1,169,294</u>
<b>DECREASE IN NET ASSETS</b>	<b>(963,219)</b>	<b>(1,007,745)</b>
<b>NET ASSETS – Beginning of year</b>	<u><b>31,729,465</b></u>	<u><b>32,737,210</b></u>
<b>NET ASSETS – End of year</b>	<u><u><b>\$ 30,766,246</b></u></u>	<u><u><b>\$ 31,729,465</b></u></u>

See accompanying notes to the financial statements.

**HAWAII FOODBANK, INC.**

**STATEMENT OF FUNCTIONAL EXPENSES**

**For the Year Ended June 30, 2023  
(With Prior Year Comparative Information)**

	Supporting Services				2023 <u>Total</u>	2022 <u>Total</u>
	Program <u>Services</u>	<u>Fundraising</u>	Management <u>and General</u>	Total <u>Supporting Services</u>		
Food donations to agencies	\$ 32,540,886	\$ -	\$ 132,141	\$ 132,141	\$ 32,673,027	\$ 32,760,205
Salaries and wages	2,664,363	1,039,446	862,979	1,902,425	4,566,788	3,937,926
Transportation and shipping	1,731,241	3,043	1,669	4,712	1,735,953	1,185,130
Professional fees	484,903	356,572	353,691	710,263	1,195,166	464,460
Payroll taxes, employee benefits and training	737,054	202,373	195,999	398,372	1,135,426	1,107,859
Equipment, supplies, and miscellaneous	409,864	81,973	163,627	245,600	655,464	440,385
Occupancy	522,512	29,603	39,260	68,863	591,375	531,028
Depreciation	375,494	22,103	18,860	40,963	416,457	285,543
Printing and bulk mail costs	52,358	299,077	13,565	312,642	365,000	202,978
Agency and neighbor island support	103,638	203,442	-	203,442	307,080	1,326,812
Dues, subscriptions, membership fees, and meetings	45,053	9,359	47,283	56,642	101,695	188,772
Insurance	84,510	4,904	4,185	9,089	93,599	79,647
Fundraising costs	48,585	21,751	-	21,751	70,336	52,954
Volunteers	13,210	6,613	18,890	25,503	38,713	36,658
<b>Total expenses</b>	<b><u>\$ 39,813,671</u></b>	<b><u>\$ 2,280,259</u></b>	<b><u>\$ 1,852,149</u></b>	<b><u>\$ 4,132,408</u></b>	<b><u>\$ 43,946,079</u></b>	<b><u>\$ 42,600,357</u></b>

See accompanying notes to the financial statements.

**HAWAII FOODBANK, INC.**

**STATEMENT OF CASH FLOWS**

**For the Year Ended June 30, 2023  
(With Prior Year Comparative Information)**

	<u>2023</u>	<u>2022</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Decrease in net assets	\$ (963,219)	\$(1,007,745)
Adjustments to reconcile decrease in net assets to net cash provided (used) by operating activities		
Depreciation	416,457	285,543
(Gain) loss on sale of property and equipment	(2,720)	41,697
Accretion of asset retirement obligation	2,604	2,457
Change in value of beneficial interest in perpetual trust	(12,277)	50,409
Net realized and unrealized losses on investments	240,369	2,203,878
Amortization of discount on use of contributed property	(95,071)	(96,299)
Amortization of fair value of use of contributed property	111,760	111,760
Contributions restricted for property and equipment	-	(75,000)
Operating lease payments less straight-line expenses	14,000	-
(Increase) decrease in		
Receivables – net	601,991	(2,084,281)
Pledges receivable – net	177,379	(202,379)
Inventory – net	19,188	1,226,486
Prepaid expenses and other assets	13,428	46,212
Increase (decrease) in		
Accounts payable	(23,660)	(298,420)
Accrued liabilities	(143,826)	9,894
Due to agencies	(736,924)	464,896
Refundable advances	(107,212)	107,212
Deferred revenue	-	(6,500)
Net cash provided (used) by operating activities	<u>(487,733)</u>	<u>779,820</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Sales of investments in marketable securities	4,805,251	5,176,454
Purchases of investments in marketable securities	(5,481,361)	(6,437,888)
Purchases of property and equipment	(316,422)	(90,407)
Net cash used by investing activities	<u>(992,532)</u>	<u>(1,351,841)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Contributions restricted for investment in property and equipment	-	75,000
Net cash provided by financing activities	<u>-</u>	<u>75,000</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS (Carry forward)</b>	<b>(1,480,265)</b>	<b>(497,021)</b>

(Continued)

**HAWAII FOODBANK, INC.**

**STATEMENT OF CASH FLOWS (Continued)**

**For the Year Ended June 30, 2023  
(With Prior Year Comparative Information)**

	<u>2023</u>	<u>2022</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS (Brought forward)	\$(1,480,265)	\$ (497,021)
CASH AND CASH EQUIVALENTS AND BOARD DESIGNATED CASH AND CASH EQUIVALENTS – Beginning of year	<u>5,025,934</u>	<u>5,522,955</u>
CASH AND CASH EQUIVALENTS AND BOARD DESIGNATED CASH AND CASH EQUIVALENTS – End of year	<u>\$ 3,545,669</u>	<u>\$ 5,025,934</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Noncash operating and investing activity –		
Contribution of marketable securities	\$ 76,474	\$ 12,962
Noncash investing activity –		
Allocation of board designated cash and cash equivalents	\$ 33,096	\$ (74,910)
Noncash investing activity –		
Addition of operating lease right-of-use assets	\$ 974,008	\$ -
Noncash financing activity –		
Addition of operating lease liabilities	\$ 988,008	\$ -

See accompanying notes to the financial statements.

## HAWAII FOODBANK, INC.

### NOTES TO THE FINANCIAL STATEMENTS

**For the Year Ended June 30, 2023  
(With Prior Year Comparative Information)**

#### NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### Organization and Activity

Hawaii Foodbank, Inc. (Organization) is a nonprofit organization established on December 3, 1982 under the laws of the State of Hawaii to collect, warehouse, and distribute salvageable food to social agencies that feed individuals in need on Oahu and Kauai, Hawaii. The Organization is a certified member of Feeding America, a nonprofit organization that provides surplus food, employee and technical training, and fund assistance to a nationwide network of food banks.

##### Basis of Presentation

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

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

*Net Assets with Donor Restrictions* consist of net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity (\$228,805 and \$216,528 in 2023 and 2022, respectively).

The financial statements include certain prior year comparative information that is not in sufficient detail to constitute a complete presentation in accordance with U.S. GAAP. Accordingly, such information should be read in conjunction with the Organization's financial statements as of and for the year ended June 30, 2022, from which the information was derived.

##### Use of Estimates

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting year. Actual results could differ from those estimates, it is reasonably possible that such estimates may change within the near term, and such differences could be material to the financial statements.

##### Cash and Cash Equivalents

The Organization considers all highly liquid investments with a maturity of three months or less at the date of purchase to be cash equivalents.

**HAWAII FOODBANK, INC.**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**For the Year Ended June 30, 2023  
(With Prior Year Comparative Information)**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Concentrations of Credit Risk

Financial instruments that potentially subject the Organization to credit risk include cash and cash equivalents, receivables, pledges receivable, and investments in marketable securities (including board designated investments in marketable securities and the beneficial interest in perpetual trust). Cash on deposit with financial institutions exceeded the related federal deposit insurance by approximately \$3,912,500 and \$5,516,700 at June 30, 2023 and 2022, respectively. Management evaluates the credit standings of these financial institutions to ensure that such deposits are adequately safeguarded as required by federal regulations.

Receivables consist of amounts due from grants, government agencies, donors, and others. Amounts due from grants, government agencies, and others are stated at unpaid balances, less an allowance for doubtful accounts, which was approximately \$0 at June 30, 2023 and 2022. The allowance is based on experience and other circumstances, which may affect the ability of grantors, agencies, and others to meet their obligations. Such receivables are considered doubtful if payments are not received in accordance with the contractual terms. Contributions and pledges receivable are also stated at unpaid balances, less an allowance for doubtful accounts, which was approximately \$0 at June 30, 2023 and 2022. Contributions and pledges receivable are determined to be collectible or uncollectible based on assessments by management of the facts and circumstances related to the individual accounts, including historical experience, an assessment of economic conditions, and a review of subsequent collections. It is the Organization's policy to write off uncollectible receivables when management determines the receivable will not be collected. There were no amounts written off during the years ended June 30, 2023 and 2022.

The Organization's investments in marketable securities are exposed to various risks, including interest rate, market, and credit risk. Investments in marketable securities are insured by federal and private insurance as represented by the custodian. Future changes in market prices may make such investments less valuable.

Investments in Marketable Securities

Investments in marketable securities are stated at fair value. Net realized and unrealized gains and losses, determined using the specific cost of the investments, are included in investment income (loss) without donor restrictions. Investment income (loss) restricted by a donor is reported as an increase (decrease) in net assets without donor restrictions if the restrictions are met either by passage of time or by use in the reporting period in which the income (loss) is recognized.

## HAWAII FOODBANK, INC.

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### For the Year Ended June 30, 2023 (With Prior Year Comparative Information)

##### NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

###### Inventory

Inventory, which consists primarily of food, beverages, and other sundry items, is valued based on management's estimate of the average wholesale value per pound of food. Management's estimate for the value of food received from the U.S. Department of Agriculture (USDA) is based on the average price per pound for food only items from the Feeding America Product Valuation Methodology Survey in the USDA donated foods catalog and the cost per pound from the prior year. Management's estimate for the value of food received from non-USDA sources is based on the results of a product valuation survey provided by Feeding America. Inventory is adjusted for unsalvageable items of approximately \$0 and \$15,300 at June 30, 2023 and 2022, respectively.

###### Board Designated Cash and Cash Equivalents and Investments in Marketable Securities

The Organization has cash and cash equivalents and investments in marketable securities that have been designated by the Board of Directors (Board) for future building expansion, agency assistance, building and capital equipment, disaster mitigation needs, food purchases, a rainy day fund, and neighbor island emergencies. The investments in marketable securities are reported at fair value. The Board has full discretion over the use of the board designated funds, which remain unrestricted as to use. Such designations may be changed by the Board at any time.

###### Property and Equipment

Property and equipment is stated at cost or, if contributed, at the estimated fair market value at the date of contribution. Depreciation is provided using the straight-line method over estimated useful lives of 30 years for the building; and three to 10 years for vehicles, office furniture and equipment, and warehouse equipment. Property and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amounts may not be recoverable. No impairment was recognized during the years ended June 30, 2023 and 2022. Repairs and maintenance are expensed as incurred. Major improvements in excess of \$5,000 are capitalized.

The Organization capitalizes property and equipment purchased with government grants, although the property is legally owned by the granting agency, if management considers it probable that the Organization will be permitted to keep the property and equipment for the estimated useful life of the asset.

###### Beneficial Interest in Perpetual Trust

The Organization recognizes charitable trusts, such as perpetual trusts, when a donor makes an initial irrevocable gift to a trust in which the Organization has a beneficial interest. Beneficial interest in perpetual trust represents assets held in a perpetual trust by an independent trustee and represent resources neither in the possession nor under the control of the Organization, although the Organization derives income from the assets of such trust. The Organization's percentage of the beneficial interest in the trust is carried at fair value as reported to the Organization by the trustee.

HAWAII FOODBANK, INC.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended June 30, 2023  
(With Prior Year Comparative Information)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases

Leases are evaluated as operating or finance leases upon commencement, and are accounted for accordingly. Specifically, a lease contains an explicitly or implicitly identified asset, the Organization retains substantially all of the economic benefits from the use of the underlying asset, and directs how and for what purpose the asset is used during the term of the lease in exchange for consideration. The Organization assesses whether a contract is or contains a lease at inception of the contract. See Note K for a summary of leases.

For the year ended June 30, 2022, operating leases were recognized in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 840, *Leases*. Operating leases were expensed over the terms of the leases on a straight-line basis.

Beginning July 1, 2022, the Organization accounts for its leases in accordance with FASB ASC 842: *Leases*. In accordance with ASC 842, a right-of-use asset and operating lease liability are recognized at the present value of future lease payments. The Organization recognizes the right-of-use asset and operating lease liability, at the inception of the lease, if such amounts are material to the financial statements.

The lease term used to calculate the right-of-use asset and operating lease liability at the commencement of a lease includes the impacts of options to extend or terminate the lease. Existing economic conditions; the nature, length, and terms of the lease agreement; and the expected condition of the leased asset at the end of the lease term are factors in assessing the probability of an option to extend or terminate a lease.

The discount rate used to calculate the present value of lease payments is the rate implicit in the lease, when readily determinable; a secured incremental borrowing rate, when the rate implicit in the lease is not readily determinable; or a risk-free interest rate, when a secured incremental borrowing rate is not available.

Real estate taxes, insurance, maintenance, and operating expenses applicable to the leased assets are generally obligations of the Organization. When such payments are fixed, they are included in the measurement of the lease assets and operating lease liabilities and, when variable, are excluded and recognized in the period in which the obligation for those payments is incurred.

Leases that have a term of 12 months or less upon commencement are considered short-term in nature. Such leases are not included in the statement of financial position and are expensed on a straight-line basis over the lease term. The lease agreements of the Organization do not contain any material residual value guarantees or material restrictive covenants.

Due to Agencies

The Organization receives contributions that are restricted for its Grant-In-Aid (GIA) program to assist agencies with paying for the shared maintenance fees. The GIA funds are applied to the accounts of agencies either at the Organization's discretion or by donor designation. At June 30, 2023 and 2022, the due to agencies balance represents amounts to be applied to various agency accounts.



**HAWAII FOODBANK, INC.**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**For the Year Ended June 30, 2023  
(With Prior Year Comparative Information)**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue and Expense Recognition

Revenue is recognized when the required goods and services are provided to the customer. Revenue from performance obligations satisfied at a point in time include shared maintenance fees of \$748,568 and \$537,990 for the years ended June 30, 2023 and 2022, respectively. Revenue from performance obligations satisfied over time include other income of \$143,928 and \$31,973 for the years ended June 30, 2023 and 2022, respectively. Revenue from sources other than performance obligations include investment income (loss) of \$372,203 and (\$1,479,280) for the years ended June 30, 2023 and 2022, respectively. Amounts received prior to the provision of the goods and services are reported as deferred revenue (none in 2023 and 2022). All other revenue was derived from sources recognized under other accounting standards.

Expenses, including advertising expenses of \$10,235 and \$3,094 during the years ended June 30, 2023 and 2022, respectively, are recorded when the related liability is incurred. Expenses that can be identified with a specific program or supporting service are charged directly to the program or supporting service using natural expense classifications. Other expenses that are common to several functions are allocated by various bases such as square footage for capital costs, salaries and headcount for labor related costs, and time spent by administrative and management personnel. Expenses related to the operations of the Kauai branch, included in the allocation of functional expenses, totaled \$1,130,440 and \$1,334,593 for the years ended June 30, 2023 and 2022, respectively.

Food Contributions

Food contributions received by the Organization are capitalized as food inventory and recorded as revenue without donor restrictions. Food contributions received from the USDA are valued based on the average price per pound for food only items from the Feeding America Product Valuation Methodology Survey in the USDA donated foods catalog and the cost per pound from the prior year. The average price per pound for food contributions received from the USDA was \$1.57 and \$1.53 for the years ended June 30, 2023 and 2022, respectively.

Food contributions from non-USDA sources are valued using the average price per pound of all donations based on the most recent two periods of the Feeding America Product Valuation Methodology Survey. The average price per pound for food non-USDA food contributions was \$1.93 and \$1.92 for the years ended June 30, 2023 and 2022, respectively.

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

**HAWAII FOODBANK, INC.**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**For the Year Ended June 30, 2023  
(With Prior Year Comparative Information)**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Grants and Contracts

The Organization recognizes grants and contracts as either contributions or exchange transactions depending on whether the transaction is reciprocal or nonreciprocal. The majority of the Organization's grants and contracts are cost-reimbursable grants and contracts, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenditures (including purchases of property and equipment, which are capitalized and depreciated for financial accounting purposes). Amounts received are recognized as revenue when the Organization has met the conditions, including incurring expenditures in compliance with the grant or contract provisions. Amounts received prior to incurring the qualifying expenditures are reported as refundable advances. Qualifying expenditures that have been incurred, but for which reimbursement has not yet been received, are reported in the statement of financial position as receivables (\$2,227,855 in 2023 and \$2,748,327 in 2022). Amounts received from such grants and contracts for which the conditions and any restrictions are met in the same reporting period are reported as net assets without donor restrictions.

The Organization was awarded cost-reimbursable grants and contracts of approximately \$884,900 that have not been recognized as of June 30, 2023 because the qualifying expenditures have not yet been incurred.

Contributions

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

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

In-Kind Donations

In-kind donations, including marketable securities, are reflected as contributions at their estimated fair value when received or when an unconditional promise to give has been received by the Organization. In-kind donations (other than food contributions and the contributed use of property described in Note K) included \$1,081,109 and \$628,462 of donated services, \$69,859 and \$114,024 of marketable securities, and \$115,541 and \$46,717 for donated goods for the years ended June 30, 2023 and 2022, respectively. Donated services are primarily for shipping costs used by the programs and the fair value is based on the amount the Organization would have paid for such services. Donated goods are valued at the wholesale or retail price for identical or similar items. Donated securities are valued at the market price of the security at the date of donation.

## HAWAII FOODBANK, INC.

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### For the Year Ended June 30, 2023 (With Prior Year Comparative Information)

#### NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### In-Kind Donations (continued)

Donated services are recognized as contributions if the services create or enhance nonfinancial assets, or require specialized skills that are performed by people with those skills and would otherwise be purchased by the Organization. A number of unpaid volunteers have made contributions of their time to the Organization. The value of this time is not reflected in these financial statements because it did not meet the criteria for recognition. During the years ended June 30, 2023 and 2022, such volunteers provided 30,589 and 23,892 hours of donated services, respectively, which the Organization valued at \$33.50 and \$31.00 per hour based on the estimated cost if the Organization were to hire workers to perform the services.

##### Shared Maintenance Fees

The Organization distributes food to over 200 agencies. Fees may be charged to help cover the costs to receive, warehouse, and distribute the products. Fees are calculated on a per-pound basis, from \$0.18 per pound up to 50% of the cost for purchased foods. These charges are reflected as revenue from shared maintenance fees in the accompanying financial statements.

##### Hawaii General Excise Tax

The State of Hawaii imposes a general excise tax of 4% on the gross receipts of the Organization from certain sales of merchandise and fundraising within Hawaii, a use tax of 4% on certain imported products and services, plus an additional 0.5% on such gross receipts and imports within the City and County of Honolulu and the County of Kauai. Hawaii general excise and use tax amounted to \$142,061 and \$213,588 for the years ended June 30, 2023 and 2022, respectively.

##### Income Taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code on exempt purpose income and is not a private foundation. Accordingly, qualifying contributions to the Organization are tax deductible.

U.S. GAAP requires uncertain tax positions to be recognized in the financial statements if they are more likely than not to fail upon regulatory examination. Management has evaluated the Organization's tax positions as of June 30, 2023 and 2022 and for the years then ended, and determined the Organization had no uncertain tax positions required to be reported in accordance with U.S. GAAP. The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits in progress for any open tax years.

HAWAII FOODBANK, INC.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended June 30, 2023  
(With Prior Year Comparative Information)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of New Accounting Pronouncement

In February 2016, FASB issued ASU No. 2016-02, *Leases (Topic 842) – Leases: Amendments to the FASB Accounting Standards Codification*. Under this ASU, lessees are required to recognize assets and liabilities on their balance sheets for all leases with a term of more than 12 months. The assets and liabilities recognize the rights and obligations created by each lease initially measured at the present value of lease payments. This recognition applies to all leases – capital and operating leases. Previously, only capital leases were recognized as assets and liabilities on balance sheets. This ASU also requires disclosures on the amount, timing and uncertainty of cash flows due to the leases, including qualitative and quantitative information.

The Organization implemented this ASU in the year ended June 30, 2023, using the modified retrospective transition method, whereby leases that were longer than 12 months as of July 1, 2022 were evaluated and recognized under this ASU. Prior period financial statement balances and disclosures have not been adjusted to reflect the provisions of the new lease standard. See Note K for information on the Organization’s leases.

NOTE B – LIQUIDITY

The Organization monitors liquidity required to meet its operating needs and other contractual commitments while also striving to maximize the investment returns on its available funds. The Organization has various sources of liquidity available for use including cash, receivables, and investments in marketable securities. Receivables are subject to implied time restrictions, but are expected to be collected within one year.

At June 30, 2023 and 2022, the Organization’s financial assets and the amounts of those assets that are available within one year of the statement of financial position date to meet general expenditures were as follows:

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 2,828,162	\$ 4,275,331
Receivables – net	2,281,483	2,883,474
Investments in marketable securities	7,752,529	7,474,884
Cash and cash equivalents – board designated	717,507	750,603
Investments in marketable securities – board designated	10,707,493	10,549,397
Beneficial interest in perpetual trust	<u>228,805</u>	<u>216,528</u>
Total financial assets	24,515,979	26,150,217
Total net assets with donor restrictions	<u>(3,653,138)</u>	<u>(3,731,099)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$20,862,841</u>	<u>\$22,419,118</u>

HAWAII FOODBANK, INC.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended June 30, 2023  
(With Prior Year Comparative Information)

NOTE C – CASH AND CASH EQUIVALENTS AND BOARD DESIGNATED CASH  
AND CASH EQUIVALENTS

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

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$2,828,162	\$4,275,331
Cash and cash equivalents – board designated	<u>717,507</u>	<u>750,603</u>
Cash and cash equivalents and board designated cash and cash equivalents	<u>\$3,545,669</u>	<u>\$5,025,934</u>

NOTE D – RECEIVABLES

At June 30, 2023 and 2022, receivables consisted of the following:

	<u>2023</u>	<u>2022</u>
Grants receivable	\$2,227,855	\$2,748,327
Accounts receivable	3,548	120,347
Contributions receivable	-	3,683
Other receivables	<u>50,080</u>	<u>11,117</u>
Total receivables	2,281,483	2,883,474
Allowance for doubtful accounts	<u>-</u>	<u>-</u>
Receivables – net	<u>\$2,281,483</u>	<u>\$2,883,474</u>

**HAWAII FOODBANK, INC.**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**For the Year Ended June 30, 2023  
(With Prior Year Comparative Information)**

NOTE E – INVENTORY

For the years ended June 30, 2023 and 2022, food inventory, net of reserves, were as follows:

	<u>Pounds</u>	<u>Value</u>
Balances at June 30, 2021 – net of reserve	1,470,058	\$ 2,755,424
Food contributions	20,296,686	34,158,170
Food distributions	(17,223,219)	(28,592,031)
Unsalvageable food and valuation adjustment	(3,065,368)	(6,000,054)
Other	<u>(418,641)</u>	<u>(792,571)</u>
Balances at June 30, 2022 – net of reserve	1,059,516	1,528,938
Food contributions and purchases	19,870,291	32,700,796
Food distributions	(17,692,583)	(28,277,457)
Unsalvageable food and valuation adjustment	(2,101,387)	(4,018,497)
Other	<u>(144,627)</u>	<u>(424,030)</u>
Balances at June 30, 2023 – net of reserve	<u>991,210</u>	<u>\$ 1,509,750</u>

The Organization had no non-food inventory items as of June 30, 2023 and 2022.

NOTE F – INVESTMENTS IN MARKETABLE SECURITIES

The Organization allocates its investments in marketable securities between undesignated and board designated. At June 30, 2023 and 2022, the fair value of total investments in marketable securities held by the Organization were as follows:

	<u>2023</u>	<u>2022</u>
Mutual funds and exchange traded funds	\$ 7,489,120	\$ 7,380,789
Equity securities	5,211,593	4,901,564
Government obligations	2,747,506	2,749,109
Money market funds	1,741,008	1,734,634
Certificates of deposit	<u>1,270,795</u>	<u>1,258,185</u>
Total investments in marketable securities	<u>\$ 18,460,022</u>	<u>\$ 18,024,281</u>

**HAWAII FOODBANK, INC.**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**For the Year Ended June 30, 2023  
(With Prior Year Comparative Information)**

NOTE F – INVESTMENTS IN MARKETABLE SECURITIES (Continued)

The board designated funds for future building and capital equipment, disaster mitigation needs, food purchases, and emergencies. The Board also designated funds for an agency assistance program. Earnings from the board designated investments are unrestricted. At June 30, 2023 and 2022, the investments in marketable securities and cash balances were allocated as follows:

	<u>2023</u>	<u>2022</u>
Board designated		
Investments in marketable securities	\$ 9,436,698	\$ 9,291,212
Brokered certificates of deposit	1,270,795	1,258,185
Cash and cash equivalents	<u>717,507</u>	<u>750,603</u>
Total board designated	<u>11,425,000</u>	<u>11,300,000</u>
Undesignated		
Investments in marketable securities	<u>7,752,529</u>	<u>7,474,884</u>
Total undesignated	<u>7,752,529</u>	<u>7,474,884</u>
 Total fund assets	 <u>\$ 19,177,529</u>	 <u>\$ 18,774,884</u>

For the years ended June 30, 2023 and 2022, investment income (loss) on investments in marketable securities consisted of the following:

	<u>2023</u>	<u>2022</u>
Net realized and unrealized losses	\$(240,369)	\$(2,203,878)
Interest and dividend income	746,214	869,548
Investment fees	<u>(133,642)</u>	<u>(144,950)</u>
 Total investment income (loss) – net	 <u>\$ 372,203</u>	 <u>\$(1,479,280)</u>

**HAWAII FOODBANK, INC.**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**For the Year Ended June 30, 2023  
(With Prior Year Comparative Information)**

NOTE G – FAIR VALUE MEASUREMENTS

U.S. GAAP provides a hierarchy that prioritizes the inputs to valuation methodologies used to measure fair value. There are three fair value levels of the inputs to the valuation methodology. Level 1 inputs consist of unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability, and inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability. Level 3 inputs are unobservable and significant to the fair value measurement. The fair value measurement level of an asset or liability within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation methodologies used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

At June 30, 2023 and 2022, the fair value measurements reportable by the Organization consisted of investments in mutual funds and exchange traded funds, and equity securities valued using quoted market prices (Level 1 measurements); money market funds and brokered certificates of deposit valued at stated value (Level 1 measurement); U.S. government agency obligations valued using pricing models maximizing the use of observable inputs for similar securities, including yields currently available on comparable securities of issuers with similar credit ratings (Level 2 measurement); and a beneficial interest in a perpetual trust valued by estimating the Organization’s portion of the fair value of the assets in the trust (Level 3 measurement).

The methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. The use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following sets forth by level within the fair value hierarchy investments at fair value as of June 30, 2023:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments in marketable securities				
Mutual funds and exchange traded funds	\$ 7,489,120	\$ -	\$ -	\$ 7,489,120
Equity securities	5,211,593	-	-	5,211,593
Government obligations	-	2,747,506	-	2,747,506
Money market funds	1,741,008	-	-	1,741,008
Brokered certificates of deposit	1,270,795	-	-	1,270,795
Total investments in marketable securities	<u>15,712,516</u>	<u>2,747,506</u>	<u>-</u>	<u>18,460,022</u>
Beneficial interest in perpetual trust	<u>-</u>	<u>-</u>	<u>228,805</u>	<u>228,805</u>
Total investments, at fair value	<u>\$ 15,712,516</u>	<u>\$ 2,747,506</u>	<u>\$ 228,805</u>	<u>\$ 18,688,827</u>



**HAWAII FOODBANK, INC.**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**For the Year Ended June 30, 2023  
(With Prior Year Comparative Information)**

NOTE G – FAIR VALUE MEASUREMENTS (Continued)

The following sets forth by level within the fair value hierarchy investments at fair value as of June 30, 2022:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments in marketable securities				
Mutual funds and exchange				
traded funds	\$ 7,380,789	\$ -	\$ -	\$ 7,380,789
Equity securities	4,901,564	-	-	4,901,564
Government obligations	-	2,749,109	-	2,749,109
Money market funds	1,734,634	-	-	1,734,634
Brokered certificates of deposit	<u>1,258,185</u>	<u>-</u>	<u>-</u>	<u>1,258,185</u>
Total investments in marketable securities	<u>15,275,172</u>	<u>2,749,109</u>	<u>-</u>	<u>18,024,281</u>
Beneficial interest in perpetual trust	<u>-</u>	<u>-</u>	<u>216,528</u>	<u>216,528</u>
 Total investments, at fair value	 <u>\$ 15,275,172</u>	 <u>\$ 2,749,109</u>	 <u>\$ 216,528</u>	 <u>\$ 18,240,809</u>

The reconciliation of the beginning and ending balances of the fair value measurement using significant unobservable inputs (Level 3) is as follows:

	<u>Value</u>
Balance at June 30, 2021	\$ 266,937
Sales and distributions	(16,279)
Purchases	16,761
Realized and unrealized losses – net	<u>(50,891)</u>
Balance at June 30, 2022	216,528
Sales and distributions	(32,900)
Purchases	26,496
Realized and unrealized gains – net	<u>18,681</u>
 Balance at June 30, 2023	 <u>\$ 228,805</u>

There were no transfers between levels of the fair value hierarchy and valuation techniques utilized to determine fair value were consistently applied during the years ended June 30, 2023 and 2022.

**HAWAII FOODBANK, INC.**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**For the Year Ended June 30, 2023  
(With Prior Year Comparative Information)**

NOTE H – PROPERTY AND EQUIPMENT

At June 30, 2023 and 2022, property and equipment consisted of the following:

	<u>2023</u>	<u>2022</u>
Building	\$ 7,268,781	\$ 7,212,757
Vehicles	1,357,658	1,205,906
Office furniture and equipment	495,934	429,435
Warehouse equipment	<u>271,002</u>	<u>237,856</u>
Total property and equipment	9,393,375	9,085,954
Accumulated depreciation	<u>(5,251,843)</u>	<u>(4,847,107)</u>
Property and equipment without contributed property	4,141,532	4,238,847
Contributed use of property – net	<u>1,230,372</u>	<u>1,247,061</u>
 Property and equipment – net	 <u>\$ 5,371,904</u>	 <u>\$ 5,485,908</u>

NOTE I – NET ASSETS WITH DONOR RESTRICTIONS

At June 30, 2023 and 2022, net assets with donor restrictions for programs consisted of the following:

	<u>2023</u>	<u>2022</u>
Net assets with donor restrictions for programs		
Contributed use of property	\$ 1,039,001	\$ 1,150,761
CDBG grant	623,333	680,000
Food purchases	316,568	278,660
Advocacy	301,000	379,879
Emergency Management	293,000	-
WCCHC Produce Prescription Program	258,583	500,000
SNAP outreach	257,518	200,000
Strategic capacity building	156,000	-
School & Keiki Pantry or Senior programs	44,028	72,245
IT support	36,352	50,000
Capital purchases	15,915	75,000
Other	<u>83,035</u>	<u>128,026</u>
 Net assets with donor restrictions for programs	 <u>\$ 3,424,333</u>	 <u>\$ 3,514,571</u>

**HAWAII FOODBANK, INC.**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**For the Year Ended June 30, 2023  
(With Prior Year Comparative Information)**

NOTE I – NET ASSETS WITH DONOR RESTRICTIONS (Continued)

At June 30, 2023 and 2022, net assets with donor restrictions for endowments consisted of the following:

	<u>2023</u>	<u>2022</u>
Net assets with donor restrictions for endowments		
Beneficial interest in perpetual trust	\$228,805	\$ 216,528
Net assets with donor restrictions for endowments	<u>\$228,805</u>	<u>\$ 216,528</u>

NOTE J – ENDOWMENTS

The Organization is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). It is the policy of the Organization to preserve the original gift as net assets with donor restrictions for endowment funds, absent explicit donor stipulations to the contrary. Unless otherwise stated, other donor-restricted gifts are classified as net assets with donor restrictions. From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. In accordance with U.S. GAAP, deficiencies of this nature are reported in net assets with donor restrictions (none for the years ended June 30, 2023 and 2022).

Changes in endowment net assets for the years ended June 30, 2023 and 2022 are as follows:

	<u>Donor Restricted for Programs</u>	<u>Donor Restricted for Endowments</u>
Balance at June 30, 2021	\$ 429	\$ 266,937
Release from restriction	(429)	-
Change in investment value	-	<u>(50,409)</u>
Balance at June 30, 2022	-	216,528
Change in investment value	-	<u>12,277</u>
Balance at June 30, 2023	<u>\$ -</u>	<u>\$ 228,805</u>

NOTE K – LEASES

The Organization’s warehouse and office facility is located on land leased from the State of Hawaii under a 55 year lease that expires in 2047. The lease provides that rent will be adjusted to 20% of the prevailing fair market lease rent every ten years. Effective November 1, 2022, the annual lease payments were reduced from \$51,497 to \$480.

HAWAII FOODBANK, INC.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended June 30, 2023  
(With Prior Year Comparative Information)

NOTE K – LEASES (Continued)

The Organization recorded the cost of the lease in property and equipment at the fair rental value, which is amortized over the lease term and is recorded as occupancy expense in the statement of functional expenses. The Organization also recorded a discount of the fair value of the lease rent at a discount rate of 7.67%. The amortization of the discount is recorded as a contribution in the statement of activities.

At June 30, 2023 and 2022, the Organization’s contributed use of property was as follows:

	<u>2023</u>	<u>2022</u>
Fair value of lease rent	\$ 5,029,200	\$ 5,029,200
Accumulated amortization of lease rent	<u>(2,309,706)</u>	<u>(2,197,946)</u>
Net fair value of lease rent	<u>2,719,494</u>	<u>2,831,254</u>
Discount on lease rent	(3,609,778)	(3,609,778)
Accumulated amortization of discount	<u>2,120,656</u>	<u>2,025,585</u>
Net discount on lease rent	<u>(1,489,122)</u>	<u>(1,584,193)</u>
Contributed use of property – net	<u>\$ 1,230,372</u>	<u>\$ 1,247,061</u>

The Organization also leases a warehouse on Kauai. The initial term of the lease expired in August 2015. The Organization exercised its option to renew the lease, which expired in November 2021. In September 2022, the Organization extended the lease through October 2027. The Organization also leases office equipment and vehicles under operating lease agreements expiring at various dates through August 2029. Office equipment and vehicles rent for the year ended June 30, 2022 was approximately \$270,000.

For the year ended June 30, 2023, lease costs, included in occupancy and transportation and shipping in the statement of functional expenses, consisted of the following:

Operating lease costs	\$ 225,141
Short-term and variable lease costs	<u>107,216</u>
Total lease costs	<u>\$ 332,357</u>

Short-term lease costs represent the Organization’s costs with respect to leases with a duration of 12 months or less and is not reflected on the Organization’s statement of financial position. Variable lease costs are comprised of costs, such as the Organization’s proportionate share of utilities, common area maintenance, and taxes that are not included in the right-of-use assets or operating lease liabilities and are recognized in the period in which they are incurred.

**HAWAII FOODBANK, INC.**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**For the Year Ended June 30, 2023  
(With Prior Year Comparative Information)**

NOTE K – LEASES (Continued)

Supplemental financial position and cash flow information related to the operating leases as of and for the year ended June 30, 2023 consisted of the following:

Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows from operating leases	\$211,141
Weighted-average remaining lease term for operating leases	19.2 years
Weighted-average discount rate for operating leases based on risk-free rate	3.01%

At June 30, 2023, future minimum operating lease rent payments consisted of the following:

Years Ending June 30th	
2024	\$ 227,288
2025	230,313
2026	224,491
2027	195,376
2028	130,110
Thereafter	<u>56,235</u>
Total future minimum lease payments	1,063,813
Discount to present value	<u>(75,805)</u>
Present value of future minimum lease payments	988,008
Less operating lease liabilities – current	<u>(200,893)</u>
 Operating lease liabilities – noncurrent	 <u>\$ 787,115</u>

At June 30, 2022 (under ASC 840), prior to the State of Hawaii lease amendment, the future minimum operating lease payments were as follows:

Years Ending June 30th	
2023	\$ 88,300
2024	\$ 65,000
2025	\$ 63,000
2026	\$ 52,300
2027	\$ 51,500
Thereafter	\$ 1,029,900

**HAWAII FOODBANK, INC.**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**For the Year Ended June 30, 2023  
(With Prior Year Comparative Information)**

**NOTE L – RETIREMENT PLAN**

The Organization has a defined contribution plan under Section 401(k) under the Internal Revenue Code (Plan). Employees are eligible to participate in the Plan after one year of service and if they work at least 1,000 hours a year. Participating employees may make voluntary contributions to the Plan. For the years ended June 30, 2023 and 2022, the Organization contributed 3% of an eligible participant's compensation, as defined, to the Plan. Total contributions to the Plan approximated \$113,000 and \$105,000 for the years ended June 30, 2023 and 2022, respectively.

**NOTE M – COMMITMENTS AND CONTINGENCIES**

On June 15, 2016, the Organization entered into a power purchase agreement with an initial term of 25 years for the design, construction, installation, operation, and maintenance of a solar power generation system (System) on the Organization's premises, and for purchase of the electric energy generated by the System. The Organization is required to purchase all electric energy generated by the System during the initial term and any extension term, for the contract rate of \$0.1045 per kWh.

Revenue and support is derived primarily from federal, State of Hawaii, and private grants, the loss of which could have a material adverse effect on the Organization. Amounts received from government grants and contracts are subject to audit and adjustment by various government agencies. Any disallowed claim, including amounts already collected, may constitute a liability. Management expects such amounts, if any, would not be material to the financial statements.

The Organization may be subject to legal proceedings, claims, or litigation arising in the ordinary course of business for which it may seek the advice of legal counsel. Management estimates that the cost to resolve such matters, if any, would not be material to the financial statements. However, it is reasonably possible that such estimates may change within the near term.

The Organization operates in the State of Hawaii. Local, national, and international events can have severe, adverse effects on economic conditions in Hawaii. These financial statements do not include the adjustments that would result if the Organization were to account for future losses or asset impairments, as the effects on the financial statements of the Organization from such changes in economic conditions are not presently determinable.

**NOTE N – CONFLICT OF INTEREST POLICY**

The Organization's Board of Directors, committee members, and volunteers are from the financial, food wholesale, retail, and distribution industries. These individuals provide valuable assistance to the Organization in the development of policies and programs and in the evaluation of awards and grants. The Organization has a conflict-of-interest policy whereby Board and committee members must advise the Board of Directors of any direct or indirect interest in any transaction or relationship with the Organization and may not participate in decisions regarding any action, which may affect their individual, professional, or business interest.

**HAWAII FOODBANK, INC.**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**For the Year Ended June 30, 2023  
(With Prior Year Comparative Information)**

NOTE O – SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 5, 2024, which is the date the financial statements were available to be issued, and determined that the Organization did not have any subsequent events requiring adjustment to the financial statements or disclosure in the notes to the financial statements.

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**HAWAII FOODBANK, INC.**

**SUPPLEMENTARY INFORMATION**

**For the Year Ended June 30, 2023**



HAWAII FOODBANK, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2023

<u>Program Title</u>	<u>Federal Assistance Listing Number</u>	<u>Agency or Pass-through Number</u>	<u>Federal Expenditures</u>	<u>Amount Provided to Sub-recipients</u>
<u>U.S. Department of Agriculture</u>				
Passed-through State of Hawaii, Department of Labor and Industrial Relations, Office of Community Services				
<i>Food Distribution Cluster</i>				
Emergency Food Assistance Program (Food Commodities)	10.569	OCS-TEFAP-22-01 & 23-01	\$2,335,011	\$2,335,011
Commodity Supplemental Food Program Emergency Food Assistance Program (Administrative Costs)	10.565 10.568	OCS-CSFP-22-01 & 23-01 OCS-TEFAP-22-01 & 23-01	1,234,560 <u>237,981</u>	1,017,090 -
<i>Total Food Distribution Cluster</i>			<u>3,807,552</u>	<u>3,352,101</u>
Coronavirus State and Local Fiscal Recovery Funds	21.027 *	OCS-SEFAP-23-01	<u>1,324,383</u> *	<u>1,324,383</u>
Senior Farmers Market Nutrition Program	10.576	OCS-SFMNP-22-01 & 23-01	<u>384,632</u>	-
Total passed-through State of Hawaii, Department of Labor and Industrial Relations, Office of Community Services			<u>5,516,567</u>	<u>4,676,484</u>
Passed-through State of Hawaii, Department of Human Services, Benefit, Employement and Support Services Division				
<i>SNAP Cluster</i>				
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	DHS-23-SNAP-0066	<u>41,550</u>	-
<i>Total SNAP Cluster</i>			<u>41,550</u>	-
Passed-through State of Hawaii, Department of Education, Hawaiian Child Nutrition Programs				
<i>Child Nutrition Cluster</i>				
Summer Food Service Program for Children	10.559	7-CFR-225	<u>2,892</u>	-
<i>Total Child Nutrition Cluster</i>			<u>2,892</u>	-
Total U.S. Department of Agriculture			<u>5,561,009</u>	<u>4,676,484</u>

(Continued)

**HAWAII FOODBANK, INC.**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)**

**For the Year Ended June 30, 2023**

<u>Program Title</u>	<u>Federal Assistance Listing Number</u>	<u>Agency or Pass-through Number</u>	<u>Federal Expenditures</u>	<u>Amount Provided to Sub- recipients</u>
<u>U.S. Department of Human Services</u>				
Passed-through State of Hawaii, Department of Human Services <i>477 Cluster</i>				
Temporary Assistance for Needy Families	93.558	DHS-23-TANF-0040	\$ 467,521	\$ -
<i>Total 477 Cluster</i>			<u>467,521</u>	<u>-</u>
Total U.S. Department of Human Services			<u>467,521</u>	<u>-</u>
<u>U.S. Department of Homeland Security</u>				
Passed-through State of Hawaii, Department of Defense				
Emergency Food and Shelter National Board Program	97.024	ARPA-R	331,947	331,947
Emergency Food and Shelter National Board Program	97.024	Phase 37 & 38	<u>64,363</u>	<u>64,363</u>
Total passed-through State of Hawaii, Department of Defense			<u>396,310</u>	<u>396,310</u>
Total U.S. Department of Homeland Security			<u>396,310</u>	<u>396,310</u>
Total Expenditures of Federal Awards			<u>\$ 6,424,840</u>	<u>\$ 5,072,794</u>

See accompanying notes to the Schedule of Expenditures of Federal Awards.

**HAWAII FOODBANK, INC.**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**For the Year Ended June 30, 2023**

**NOTE A – BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal grant activity of Hawaii Foodbank, Inc. (Organization) 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 (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, certain amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the financial statements of the Organization.

(\*) Denotes the major program.

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The expenditures are recognized following the cost principles contained in the Uniform Guidance, as applicable, wherein certain types of expenditures are not allowable or are limited as to reimbursement. In addition, agency or pass-through entity identifying numbers are presented where available.

The food commodities received from the U.S. Department of Agriculture (USDA) are valued based on management's estimate of the average wholesale value per pound of food received from the USDA. Management's estimate is based on the results of a product valuation survey conducted by Feeding America. The value of USDA food commodities distributed during the year includes amounts held in inventory at the beginning of the year. As of June 30, 2023, the Organization had an inventory of USDA food commodities of \$192,107.

**NOTE C – INDIRECT COST RATES**

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

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**HAWAII FOODBANK, INC.**  
**REPORTS IN ACCORDANCE WITH**  
***GOVERNMENT AUDITING STANDARDS***  
**For the Year Ended June 30, 2023**



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

Hawaii Foodbank, Inc.:

We have audited, 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, the financial statements of Hawaii Foodbank, Inc. (Organization), a nonprofit Hawaii corporation, which comprise the statement of financial position as of June 30, 2023, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 5, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing 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 Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 Organization'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 or significant deficiencies may exist that were not identified.

### Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization’s financial statements are free of 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 financial statements. 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 these Reports

The purpose of these reports 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. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization’s internal control and compliance. Accordingly, these reports are not suitable for any other purpose.

*CW Associates, CPAs*

CW Associates, CPAs  
Honolulu, Hawaii  
March 5, 2024



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**HAWAII FOODBANK, INC.**  
**REPORTS IN ACCORDANCE WITH THE UNIFORM GUIDANCE**  
**For the Year Ended June 30, 2023**



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

Hawaii Foodbank, Inc.:

Report on Compliance for Each Major Federal Program

*Opinion on Each Major Federal Program*

We have audited Hawaii Foodbank, Inc.'s (Organization), a nonprofit Hawaii corporation, compliance with the types of compliance requirements identified as subject to audit in the *U. S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on the Organization's major federal program as of June 30, 2023. The Organization's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, the Organization complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2023.

*Basis for Opinion on Each Major Federal Program*

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (U.S. GAAS); 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). Our responsibilities under those standards and the Uniform Guidance are further described in the *Auditor's Responsibilities for the Audit of Compliance* section of our report.

We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the major federal program. Our audit does not provide a legal determination of the Organization's compliance with the compliance requirements referred to above.

*Responsibilities of Management for Compliance*

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Organization's federal programs.



## *Auditor's Responsibilities for the Audit of Compliance*

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Organization's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with U.S. GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Organization's compliance with the requirements of its major federal program as a whole.

In performing an audit in accordance with U.S. GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Organization's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Organization's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

### Report on 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 a 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.

Report on Internal Control over Compliance (continued)

Our consideration of internal control over compliance was for the limited purpose described in the *Auditor's Responsibilities for the Audit of Compliance* section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit, we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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.

*CW Associates, CPAs*

CW Associates, CPAs  
Honolulu, Hawaii  
March 5, 2024



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**HAWAII FOODBANK, INC.**  
**FINDINGS AND QUESTIONED COSTS**  
**For the Year Ended June 30, 2023**

HAWAII FOODBANK, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2023

SUMMARY OF AUDITOR'S RESULTS

**Financial statements**

Type of auditor's report issued on the financial statements	<u> X </u>	Unmodified	<u> </u>	Qualified
	<u> </u>	Adverse	<u> </u>	Disclaimer
Internal control over financial reporting				
Material weaknesses(es) identified?	<u> </u>	Yes	<u> X </u>	No
Significant deficiency(ies) identified?	<u> </u>	Yes	<u> X </u>	None Reported
Noncompliance material to the financial statements noted?	<u> </u>	Yes	<u> X </u>	No

**Federal awards**

Internal control over major federal program				
Material weaknesses(es) identified?	<u> </u>	Yes	<u> X </u>	No
Significant deficiency(ies) identified?	<u> </u>	Yes	<u> X </u>	None Reported
Type of auditor's report on compliance for the major federal program	<u> X </u>	Unmodified	<u> </u>	Qualified
	<u> </u>	Adverse	<u> </u>	Disclaimer
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	<u> </u>	Yes	<u> X </u>	No

Identification of major federal award program

Food Distribution Cluster  
Assistance Listing No. 21.027 – Coronavirus State and Local Fiscal Recovery Funds

Dollar threshold used to distinguish between Type A and Type B programs				\$750,000
Auditee qualified as a low-risk auditee	<u> X </u>	Yes	<u> </u>	No

FINDINGS – FINANCIAL STATEMENT AUDIT

No matters were noted.

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD AUDIT

No matters were noted.