

**KAUAI FOOD BANK INC.**

**FINANCIAL STATEMENTS WITH INDEPENDENT AUDITOR'S REPORT**

**December 31, 2023**

## TABLE OF CONTENTS

	<u>PAGE</u>
<b>INDEPENDENT AUDITOR'S REPORT</b>	3
<b>FINANCIAL STATEMENTS</b>	
Statement of Financial Position	5
Statement of Activities	6
Statement of Functional Expenses	7
Statement of Cash Flows	8
Notes to Financial Statements	10

**CLIFFORD ISARA CPA LLC**

1150 S. King Street, Suite 605

Honolulu, Hawaii 96814

Phone: (808) 597-1337 | Fax: (808) 596-8073

**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors  
Kauai Food Bank Inc.

**Opinion**

We have audited the accompanying financial statements of Kauai Food Bank Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2023, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

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

**Basis for Opinion**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 Kauai Food Bank Inc. 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.

**Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, 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 Kauai Food Bank Inc. ability to continue as a going concern within one year after the date that the financial statements are available to be 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 generally accepted 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 judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted 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 Kauai Food Bank Inc.'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 Kauai Food Bank Inc.'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.



Honolulu, Hawaii  
February 26, 2025

**Kauai Food Bank Inc.**  
**STATEMENT OF FINANCIAL POSITION**  
**December 31, 2023**

**ASSETS**

**CURRENT ASSETS**

Cash	\$ 1,003,918
Investments	807,852
Accounts receivable	9,492
Donated rent receivable, current	9,288
Inventory	80,402
Prepaid expenses	<u>23,606</u>

Total current assets	<u>1,934,558</u>
----------------------	------------------

**FIXED ASSETS, AT COST**

Fixed assets, less accumulated of \$245,157	<u>330,375</u>
---	----------------

**OTHER ASSETS**

Donated rent receivable, noncurrent	867,356
Land lease deposit	<u>960</u>
	<u>868,316</u>

\$ 3,133,249

**LIABILITIES AND NET ASSETS**

**CURRENT LIABILITIES**

Accounts payable	\$ 965
Accrued liabilities	17,812
Tenant security deposits	<u>4,240</u>

Total current liabilities	<u>23,017</u>
---------------------------	---------------

**NET ASSETS**

Without donor restrictions	2,217,583
With donor restrictions	<u>892,649</u>

3,110,232

\$ 3,133,249

See accompanying notes to financial statements.

**Kauai Food Bank Inc.**  
**STATEMENT OF ACTIVITIES**  
**Year Ended December 31, 2023**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>SUPPORT AND REVENUE</b>			
Contributions	\$ 573,610	\$ 22,000	\$ 595,610
Food contributions	479,290	-	479,290
Grant revenues	95,000	97,500	192,500
In-kind contribution - below market lease	-	878,937	878,937
In-kind contribution - amortization of lease discount	-	10,987	10,987
Rental income	61,331	-	61,331
Program service fees	7,963	-	7,963
Sales of donated assets	400	-	400
Investment income	7,645	-	7,645
<b>RECLASSIFICATIONS</b>			
Net assets released from restrictions	<u>242,734</u>	<u>(242,734)</u>	<u>-</u>
Total support and revenue	<u>1,467,973</u>	<u>766,690</u>	<u>2,234,663</u>
<b>EXPENSES</b>			
Program services			
Client services	723,867	-	723,867
Supporting services			
Management and general	594,357	-	594,357
Fundraising	<u>63,055</u>	<u>-</u>	<u>63,055</u>
Total expenses	<u>1,381,279</u>	<u>-</u>	<u>1,381,279</u>
<b>CHANGE IN NET ASSETS</b>	86,694	766,690	853,384
<b>NET ASSETS AT BEGINNING OF YEAR</b>	<u>2,130,889</u>	<u>125,959</u>	<u>2,256,848</u>
<b>NET ASSETS AT END OF YEAR</b>	<u><u>\$ 2,217,583</u></u>	<u><u>\$ 892,649</u></u>	<u><u>\$ 3,110,232</u></u>

See accompanying notes to financial statements.

**Kauai Food Bank Inc.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**Year Ended December 31, 2023**

	<u>Program</u>	<u>Supporting Services</u>		
	<u>Client Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Food distribution	\$ 686,715	\$ -	\$ -	\$ 686,715
Wages and related costs	24,848	313,981	46,834	385,663
Occupancy	800	102,828	-	103,628
Professional fees	167	72,811	398	73,376
Depreciation	-	33,794	-	33,794
Insurance	-	22,281	-	22,281
Software user fees	-	16,439	-	16,439
Office	3,337	5,393	3,095	11,825
Promotion	216	20	10,260	10,496
Vehicle	7,173	1,554	-	8,727
Travel	519	5,829	1,076	7,424
Communication	-	5,323	-	5,323
Other	92	14,104	1,392	15,588
	<hr/>	<hr/>	<hr/>	<hr/>
Total functional expenses	<u>\$ 723,867</u>	<u>\$ 594,357</u>	<u>\$ 63,055</u>	<u>\$ 1,381,279</u>

See accompanying notes to financial statements.

**Kauai Food Bank Inc.**  
**STATEMENT OF CASH FLOWS**  
**Year Ended December 31, 2023**

**Cash flows from operating activities**

Change in net assets	\$ 853,384
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation	33,794
Realized investment loss	45,631
Unrealized investment gain	(11,276)
Donated lease expenses	13,280
In-kind contributions - below market rent	(878,937)
Amortization of discount - donated rent	(10,987)
(Increase) decrease in:	
Accounts receivable	(5,305)
Inventory	13,286
Prepaid expenses	(10,369)
Other assets	(960)
Accounts payable	(3,093)
Accrued liabilities	(14,930)
Tenant rental deposit	<u>1,104</u>
Net cash provided by operating activities	<u>24,622</u>

**Cash flows from investing activities**

Proceeds from sales of investments	1,375,649
Purchase of investments	<u>(1,391,970)</u>
Net cash used in investing activities	<u>(16,321)</u>

**Cash flows from financing activities**

Net cash used in financing activities	<u>-</u>
---------------------------------------	----------

**NET INCREASE IN CASH AND CASH EQUIVALENTS** 8,301

Cash and cash equivalents at beginning of year 995,617

Cash and cash equivalents at end of year \$ 1,003,918

**SUPPLEMENTAL DISCLOSURES:**

Interest paid	<u><u>-</u></u>
---------------	-----------------

See accompanying notes to financial statements.

**Kauai Food Bank Inc.**  
**STATEMENT OF CASH FLOWS (CONTINUED)**  
**Year Ended December 31, 2023**

**SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:**

During the fiscal year, the Organization received \$878,937 in below-market (donated) rent as described in Note L.

See accompanying notes to financial statements.

**Kauai Food Bank Inc.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2023**

**NOTE A - ORGANIZATION AND PURPOSE**

The Kauai Food Bank Inc. (the Organization) was incorporated as a non-profit entity under the laws of the State of Hawaii on December 16, 1994. The Organization's mission is to educate, provide nutritious food for the hungry, and to respond emergencies.

Revenues are provided primarily from contributions. Significant reductions, if any, in the level of contributions received may have an adverse effect on the Organization's programs and activities.

**NOTE B - SIGNIFICANT ACCOUNTING POLICIES**

- (1) **Basis of accounting** - The financial statements of the Organization have been prepared in conformity with U.S. generally accepted accounting principles.
- (2) **Basis of presentation** - The Organization is required to report information regarding its financial position and activities according to the following net asset classifications:

**Net assets without donor restrictions:** 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 the board of directors.

**Net assets with donor restrictions:** 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 by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

- (3) **Use of estimates** - The preparation of 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 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.

**Kauai Food Bank Inc.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2023**

**NOTE B - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

- (4) **Statement of cash flows** - For purposes of the statement of cash flows, the Organization considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.
- (5) **Contributions** - Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give due in the next year are recorded at their net realizable value. Unconditional promises to give due in subsequent years are reported at the present value of their net realizable value, using risk-free interest rates applicable to the years in which the promises are to be received.

- (6) **Investments** - The Organization reports its investment in debt securities at their fair value in the Statement of Financial Position. Unrealized gains and losses are included in the change in net assets in the accompanying Statement of Activities.
- (7) **Inventory** - The inventory cost is stated using the first-in, first-out (FIFO) method. Purchased food is stated at cost and donated food is valued at the estimated cost per pound established by a national not-for-profit organization.
- (8) **Fixed assets and depreciation** - Fixed assets are recorded at cost or the estimated fair market value at time of donation. Depreciation and amortization are calculated using the straight-line method over the estimated useful lives of the assets. Expenditures for repairs and maintenance are charged to expense. Property retired or otherwise disposed of is removed from the appropriate asset and related accumulated depreciation accounts.

**Kauai Food Bank Inc.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2023**

**NOTE B - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

- (9) **Functional expenses** - The cost of providing various programs and supporting activities have been reported on a functional basis in the Statement of Activities and in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the various programs and supporting services based on estimates made by management.

Accordingly, certain costs have been allocated among program services and supporting services benefitted. Such allocations are determined by management on an equitable basis.

The following expenses were allocated based on the time and effort method:

Wages and related costs  
Occupancy  
Insurance  
Supplies, printing and postage  
Communication

- (10) **Income taxes** - The Organization has obtained tax exempt status under Internal Revenue Code Section 501(c)(3) and application state law.
- (11) **Shared Maintenance Costs (SMC)** - SMC fees are charged to agencies to which the Organization distributes with costs associated with receiving, storing and distributing inventory. During 2023, maximum SMC fees charged amount was \$ .19 per pound.
- (12) **Donated goods and services** - Donated materials and equipment are reflected as contributions at their estimated value at the date of receipt. Donated services are recognized as contributions in accordance with U.S. accounting standards which state, if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. Food donations are valued at the estimated cost per pound established by Feeding America, a national not-for-profit organization. Significant and essential donated services are performed by various volunteers to support the Organization programs and activities. These services have not been reflected in the financial statements as the criteria were not met.

**Kauai Food Bank Inc.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2023**

**NOTE B - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

- (13) **Revenue and revenue recognition** - The Organization recognizes contributions when cash, food, or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give (a contribution 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.

**NOTE C - AVAILABILITY AND LIQUIDITY**

The following represents the Organization's financial assets as of December 31, 2023:

Financial assets at year-end	
Cash and cash equivalents	\$ 1,003,918
Investments	807,852
Donated rent receivable, current	9,288
Accounts receivable	<u>9,492</u>
	1,830,550
Less amounts not available to be used within one year:	
Net assets with purpose restrictions to be met in less than one year	<u>25,993</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 1,804,557</u>

As part of its liquidity plan, excess cash is invested in short-term investments including money market accounts and mutual funds.

**NOTE D - DESCRIPTION OF PROGRAMS**

Major program services as delineated on the Statement of Functional Expenses described below:

**Client services** - Provides services to accomplish the Organization's mission by serving as an intermediary between donors and those in need.

**Kauai Food Bank Inc.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2023**

**NOTE E - INVESTMENTS**

Investments consist of mutual fund investments stated at market value according to broker statements and consist of the following at December 31, 2023:

	<u>Cost</u>	<u>Market Value</u>	<u>Cumulative Unrealized Gain (Loss)</u>
Bond index ETF	\$ 496,782	\$ 494,602	\$ (2,180)
Fixed income	<u>311,333</u>	<u>313,250</u>	<u>1,917</u>
	<u>\$ 808,115</u>	<u>\$ 807,852</u>	<u>\$ (263)</u>

Earnings for the current year consisted of the following:

Interest and dividends	\$ 42,000
Realized loss	(45,631)
Unrealized gain	<u>11,276</u>
	<u>\$ 7,645</u>

**NOTE F - FURNITURE AND EQUIPMENT**

Furniture and equipment are summarized as follows:

Office equipment	\$ 32,313
Furniture and fixtures	3,691
Machinery and equipment	105,508
Vehicles	142,854
Building	<u>291,166</u>
	575,532
Less accumulated depreciation	<u>(245,157)</u>
	<u>\$ 330,375</u>

**Kauai Food Bank Inc.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2023**

**NOTE G - NET ASSETS WITH DONOR RESTRICTIONS**

At December 31, 2023, net assets with donor restrictions consisted of grants which are restricted for various purposes by the grantor as follows:

Donated rent receivable	\$ 876,644
Backpack	458
Other	<u>15,547</u>
	<u><u>\$ 892,649</u></u>

**NOTE H - CONCENTRATION OF CREDIT RISK**

The Organization maintains its cash balances at several financial institutions. At times such balances may exceed federally insured limits. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on its cash and cash equivalents. At December 31, 2023, \$751,292 in cash exceeded the federally insured limits.

**NOTE I - FAIR VALUE MEASUREMENTS**

FASB ASC Topic 820, *Fair Value Measurements and Disclosures*, establishes a hierarchy for ranking the quality and reliability of information used to determine fair values and requires assets and liabilities carried at fair value to be classified and disclosed in one of the following three categories:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Board has the ability to access at the measurement date.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly through corroboration with observable market data.
- Level 3: Unobservable inputs that are not corroborated by market data.

**Kauai Food Bank Inc.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2023**

**NOTE I - FAIR VALUE MEASUREMENTS (CONTINUED)**

The fair values of financial assets are the same as their cost basis. The fair values of financial liabilities are the same as their cost basis generally because management believes that any discount on early extinguishment would be insignificant. The fair values of investments are recorded based on quoted prices in active markets (Level 1). The financial statements as of and for the year ended December 31, 2023 do not include any nonrecurring fair value measurements.

**NOTE J - REVENUE FROM CONTRACTS WITH CUSTOMERS**

The following table provides information about significant changes in the accounts receivable arising from SMC billings and grants during the year ended December 31, 2023:

Accounts receivable - client fees, beginning of year	\$ -
Increase due to clients billings	15,600
Decrease due to collection of account receivables	<u>(7,561)</u>
Accounts receivables - client fees	<u>\$ 8,039</u>

**NOTE K - LESSOR OPERATING LEASES**

The Organization leases a portion of its building space to two tenants. For the year ended December 31, 2023, the operating lease revenue was \$61,331. Future minimum leases for the lease period ending in December 2027 amount to \$171,782.

**Kauai Food Bank Inc.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2023**

**NOTE L - BELOW MARKET OPERATING LAND LEASE**

Effective October 1, 2023, the Organization entered into a lease agreement with the State of Hawaii Board of Land and Natural Resources (Board), whereby the Organization would lease the land on which its warehouse facility is located. The term of the lease is for a forty-year period that ends on September 30, 2063, with a base rent of \$480 per year. Rental rates are to be reopened and redetermined at the 10<sup>th</sup>, 20<sup>th</sup> and 30<sup>th</sup> years of the lease term based on the Board's minimum rent rate charged to eleemosynary organizations.

Under the provisions of Financial Accounting Standards Codification Topic 842 (ASC 842), the Organization computed the right-of use asset and lease liability for the above 40 year contract. Using a discount rate of 5%, the computed asset and liability amounted to less than \$10,000. Due to immateriality, right-of-use asset and lease liability were not recorded into the books of account.

The fair value of the lease was determined to be \$13,400 per quarter (\$53,600 per year) based on the last quarterly paid by the Organization prior to the new lease.

The difference between the fair value and the land lease due under the contract was discounted over the term of the contract using a discount rate of 5%.

Contribution receivable recognized	\$ 878,937
Donated lease expense	(13,280)
Current amortization discount	<u>10,987</u>
	<u><u>\$ 876,644</u></u>

**NOTE M - SUBSEQUENT EVENTS**

Management has evaluated subsequent events through February 26, 2025 , the date the financial statements were available for issuance.