

**THE FOOD BASKET INC.**  
(A Hawai'i Nonprofit Corporation)

AUDITED FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
(With Independent Auditors' Report)

FOR THE YEAR ENDED DECEMBER 31, 2022

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Management of  
The Food Basket Inc.  
Hilo, Hawai'i, 96720

**Report on the Audit of the Financial Statements**

***Opinion***

We have audited the accompanying financial statements of The Food Basket Inc. (a nonprofit corporation)(the Organization), which comprise the statement of financial position as of December 31, 2022, and the related statements of activities and changes in net assets, functional expenses, 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 The Food Basket Inc. as of December 31, 2022, and the changes in its net assets and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Change in Accounting Principle***

As discussed in Note 2 to the financial statements, during the year ended December 31, 2022, the Organization adopted Financial Accounting Standards Board's Accounting Standards Codification 2016-02 Topic 842, *Leases*. Our opinion is not modified with respect to this matter.

***Emphasis of Matter***

As discussed in Note 4 to the financial statements, the 2021 financials have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

***Basis for Opinion***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of The Food Basket 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 these 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 The Food Basket Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

### ***Auditors' 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 auditors' 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 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 generally accepted auditing standards 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 Food Basket 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 The Food Basket Inc.'s ability to continue as a going concern for a reasonable period of time.

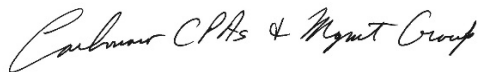
We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated August 30, 2023, on our consideration of The Food Basket Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 Food Basket Inc.'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 Food Basket Inc.'s internal control over financial reporting and compliance.



Hilo, Hawai'i  
August 30, 2023

THE FOOD BASKET INC.

Statement of Financial Position  
As of December 31, 2022

ASSETS

CURRENT ASSETS	
Cash and Cash Equivalents (Note 2)	\$ 2,609,785
Grants Receivable (Note 2)	770,891
Pledges Receivable (Note 2)	50,000
Inventory (Note 2)	896,548
Food and Gas Gift Cards (Note 3)	79,000
Prepaid Expenses	36,738
Total Current Assets	4,442,962
PROPERTY AND EQUIPMENT (Note 2)	
Leasehold Improvements	853,853
Vehicles	847,644
Warehouse Equipment	265,209
Furniture and Equipment	96,192
Building	57,160
Accumulated Depreciation and Amortization	(1,220,185)
Operating Property and Equipment	899,873
Land - Ponahawai Street (Note 6)	1,616,998
Total Property and Equipment	2,516,871
OTHER NONCURRENT ASSETS	
Deposits	12,696
Operating Lease Right-Of-Use Assets, Net (Notes 2 and 8)	356,415
Finance Lease Right-Of-Use Assets, Net (Notes 2 and 8)	51,605
Restricted Cash (Note 2)	3,559,120
Total Other Assets	3,979,836
TOTAL ASSETS	\$ 10,939,669

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES	
Accounts Payable	\$ 453,471
Accrued Wages and Benefits	142,179
Refundable Advances (Note 2)	11,900
Current Portion of Operating Lease Liabilities (Notes 2 and 8)	59,675
Current Portion of Finance Lease Liabilities (Notes 2 and 8)	15,499
Total Current Liabilities	682,724
LONG-TERM LIABILITIES	
Operating Lease Liabilities (Notes 2 and 8)	298,394
Finance Lease Liabilities (Notes 2 and 8)	37,155
Total Long-Term Liabilities	335,549
NET ASSETS (Note 2)	
Net Assets Without Donor Restrictions	6,849,002
Net Assets Without Donor Restrictions - Board of Directors Designated	452,766
Net Assets With Donor Restrictions	2,619,628
Total Net Assets	9,921,396
TOTAL LIABILITIES AND NET ASSETS	\$ 10,939,669

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

THE FOOD BASKET INC.

Statement of Activities and Changes in Net Assets  
For the Year Ended December 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
<b>REVENUE, GAINS AND OTHER SUPPORT</b>			
Contributions	\$ 3,232,139	\$ 2,233,553	\$ 5,465,692
Contributed Nonfinancial Assets (Note 3)	3,992,746	-	3,992,746
Government Contracts - State of Hawaii	377,402	-	377,402
County of Hawaii - Contracts	1,229,006	-	1,229,006
Federal Grants	2,240,406	-	2,240,406
United Way and Combined Federal Campaign	30,177	-	30,177
Program Service Fees	400,587	-	400,587
Interest Income	1,631	-	1,631
Special Events Revenue, Net of Expenses of \$6,689 (Note 2)	41,189	-	41,189
Net Assets Released From Restrictions	1,088,432	(1,088,432)	-
<b>Total Revenue, Gains and Other Support</b>	<b>12,633,715</b>	<b>1,145,121</b>	<b>13,778,836</b>
<b>EXPENSES</b>			
Program Services	11,079,915	-	11,079,915
Management and General	524,103	-	524,103
Fundraising	159,088	-	159,088
<b>Total Expenses</b>	<b>11,763,106</b>	<b>-</b>	<b>11,763,106</b>
<b>CHANGES IN NET ASSETS</b>	<b>\$ 870,609</b>	<b>\$ 1,145,121</b>	<b>\$ 2,015,730</b>
NET ASSETS, BEGINNING OF YEAR - RESTATED (Note 4)	6,431,159	1,474,507	7,905,666
NET ASSETS, END OF YEAR	<u>\$ 7,301,768</u>	<u>\$ 2,619,628</u>	<u>\$ 9,921,396</u>

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

THE FOOD BASKET INC.

Statement of Functional Expenses  
For the Year Ended December 31, 2022

	Program Services	Supporting Services		Total
		Management and General	Fundraising	
Salaries and Wages	\$ 1,015,531	\$ 177,997	\$ 32,402	\$ 1,225,930
Other Employee Benefits	166,044	22,208	6,737	194,989
Payroll Taxes	117,801	20,648	3,759	142,208
Total Salaries, Wages and Related Expenses	1,299,376	220,853	42,898	1,563,127
Food Expenses (Note 3)	5,641,093	-	-	5,641,093
Contracts - Program Related	2,358,660	-	-	2,358,660
Supplies	530,078	58,898	-	588,976
Professional Fees	138,008	94,861	109,501	342,370
Grants and Assistance to Sub-Recipients	284,039	-	-	284,039
Depreciation and Amortization (Note 2)	250,779	31,347	-	282,126
Advertising and Marketing (Note 12)	127,744	30,813	-	158,557
Utilities	108,232	12,026	-	120,258
Transportation and Delivery	91,881	-	-	91,881
Lease Expense (Note 8)	75,915	8,435	-	84,350
Equipment Repairs and Maintenance	51,599	2,689	-	54,288
Insurance	33,847	14,506	-	48,353
Other Expenses	6,158	31,718	6,689	44,565
Facilities Repairs and Maintenance	32,727	3,636	-	36,363
Travel	27,106	6,777	-	33,883
Telephone	13,629	1,514	-	15,143
Meetings	9,044	6,030	-	15,074
Total Expenses	\$ 11,079,915	\$ 524,103	\$ 159,088	\$ 11,763,106

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



THE FOOD BASKET INC.

Statement of Cash Flows  
For the Year Ended December 31, 2022

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in Net Assets	\$ 2,015,730
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided by Operating Activities:	
Depreciation and Amortization	282,126
(Increase) Decrease:	
Change in Accounts Receivable	7,479
Change in Grants Receivable	(415,944)
Change in Pledges Receivable	459,000
Change in Food and Gas Gift Cards	(79,000)
Change in Inventory	141,186
Change in Prepaid Expenses	(605)
Change in Deposits	69,660
Change in Accounts Payable	248,889
Change in Accrued Wages and Benefits	14,961
Change in Refundable Advances	(90,227)
Net Cash Provided by Operating Activities	<u>2,653,255</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Acquisition of Property and Equipment	(39,899)
Acquisition of Land - Ponahawai Street	<u>(1,616,998)</u>
Net Cash Used by Investing Activities	(1,656,897)
CASH FLOWS FROM FINANCING ACTIVITIES	
	<u>-</u>
<b>Increase in Cash and Cash Equivalents for the Year</b>	<b>996,358</b>
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, BEGINNING OF YEAR	<u>5,172,547</u>
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, END OF YEAR	<u><u>\$ 6,168,905</u></u>
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING ACTIVITIES:	
Donated Vehicle	\$ 20,000
Donated Food Gift Cards	\$ 76,520

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

# THE FOOD BASKET INC.

## Notes to the Financial Statements December 31, 2022

### Note 1. ORGANIZATION

The Food Basket Inc. (the Organization) was incorporated in May, 2007, as a non-profit corporation under the laws of the State of Hawai'i. The mission of the Organization is to feed the hungry in Hawai'i County while attending to the root causes of this critical social problem. The Food Basket accomplishes its mission by preventing the waste of all edible food in Hawai'i County, feeding the hungry with this food, educating the community about local hunger and what can be done to solve this social problem, and collaborating with organizations of partnering missions to eradicate the root of hunger and other social ills: poverty.

The Organization acquires donated food through large food drives and via surplus food from local companies and the United States Department of Agriculture. The Organization distributes food to over 90 community groups, churches, and other not-for-profit organizations, as well as operating other mission guided programs including:

- *SNAP (Food Stamps) Assistance:* The Supplemental Nutrition Assistance Program (SNAP), previously known as Food Stamps, provides supplemental food benefits for qualifying Hawai'i residents. SNAP is a federally funded program administered by the State of Hawai'i Department of Human Services (DHS). The Food Basket is contracted by DHS to provide eligibility prescreening, application assistance, limited case assistance, and additional resources.
- *DA BUX (Double Up Food Bucks) Discounts:* The DA BUX program partners with food retailers to make Hawai'i grown fruits and vegetables more affordable for SNAP-EBT cardholders.
- *DA BOX Produce:* DA BOX is a community supported agriculture (CSA) program. The Food Basket purchases Hawai'i Island grown produce from our local farmers and resells to customers island-wide.
- *Kokua Harvest:* This program prevents food waste at its source, builds community resilience and connection, and strengthens access to healthy, nutrient-dense fresh fruit and vegetables by harvesting and distributing excess produce to low-income communities throughout Hawai'i Island.

*Hawai'i Island Agricultural Innovation Park:* The Organization is in the predevelopment stage of a 24.5 acre "agricultural innovation park" in Hilo, Hawai'i. The proposed park will allow the Organization to expand its ongoing efforts to promote the purchase and consumption of locally grown foods from a strategic location on a collaborative campus.

### Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*Method of Accounting:* The Organization's financial statements are prepared on the accrual basis of accounting according to generally accepted accounting principles. Under this method of accounting, revenue is recognized when earned rather than when received, and expenses are recognized when incurred rather than when paid. For contributions and donations, revenue is recognized when the gift is received. For grants, revenue is recognized as the applicable requirements are fulfilled.

*Cash and Cash Equivalents:* For purposes of the statement of cash flows, the Organization considers highly liquid investments with an initial maturity of three months or less are considered to be cash equivalents.

THE FOOD BASKET INC.

Notes to the Financial Statements  
December 31, 2022

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Organization follows ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. As a result, restricted cash is included with cash and cash equivalents when reconciling the beginning-of-year and end-of-year total amounts reported on the statement of cash flows. The following table provides a reconciliation of cash and restricted cash reported within the statements of financial position that sum to the totals of the same such amounts in the statements of cash flows at December 31, 2022:

Cash and Cash Equivalents	\$ 2,609,785
Restricted Cash	<u>3,559,120</u>
Total	<u>\$ 6,168,905</u>

*Restricted Cash:* Included in restricted cash are amounts with donor-imposed restrictions on contributed resources, board of directors designated restrictions, and cash restricted by management for long-term investment. Restricted cash consists of the following at December 31, 2022:

Donor Restrictions	\$ 2,619,628
Board of Directors Designated - Capital	452,766
Management Designated for Food	<u>486,726</u>
Total	<u>\$ 3,559,120</u>

*Inventory:* Inventory consists of donated food items and sundries recorded at estimated fair value at the time of the donation, and purchased food items recorded at the lower of cost or market (first-in, first-out basis). Donated food was valued at \$1.92 per pound for the year ending December 31, 2022 based on a study conducted by Feeding America.

*Grants and Pledges Receivable:* Grants receivable are comprised of Federal grants and contracts from the State of Hawai'i and other private grants. Pledges receivable are comprised of private grants from various foundations and other organizations. Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. The Organization determines whether an allowance for uncollectible accounts should be provided for grants and pledges receivable. Such estimates are based on management's assessment of the aged basis of its receivables, subsequent receipts, current economic conditions, and historical information. Management has determined, based on historical experience that amounts are collectible and no allowance for doubtful accounts is deemed necessary.

*Property and Equipment:* Property and equipment are stated at cost. Depreciation and amortization is computed on the straight-line basis over the estimated useful lives of the assets, which range from 3 to 39 years. Leasehold improvements generally revert to the ownership of the real property upon termination of the lease agreement and are amortized over the shorter of the useful life of those leasehold improvements and the remaining lease term. The Organization capitalizes expenses over \$1,000 and a useful life of more than one year. Donated property and equipment are recorded as revenue at their estimated fair value. Such donations are reported as unrestricted revenue unless the donor has restricted the donated asset to a specific purpose. Land - Ponahawai Street is land intended for the development of the Hawai'i Island Agricultural Innovation Park.

THE FOOD BASKET INC.

Notes to the Financial Statements  
December 31, 2022

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Organization reviews its property for impairment whenever events or changes indicate that the carrying value of an asset may not be recoverable. The Organization compares the carrying value to its fair value to determine whether an impairment loss has occurred. For the year ended December 31, 2022, no impairment loss has been recognized.

*Capital Project Costs:* The preliminary stage commences at the beginning of a project and lasts until the acquisition or construction of the specific long-lived asset is considered probable, as defined in ASC 450, *Contingencies*. In assessing probability, the Organization considers whether (1) management, having the requisite authority, has implicitly or explicitly authorized and committed to funding the acquisition or construction of a specific asset, (2) the financial resources are available consistent with such authorization, and (3) the ability exists to meet the necessary local and other governmental regulations. Preliminary stage costs are expensed as incurred. For the year ending December 31, 2022, the Organization incurred \$50,907 of preliminary stage capital project costs recognized in professional fees.

Assets purchased with contract funds revert back to the grantee organization upon termination of their intended use. However, management intends to use the assets for their intended purposes for the life of the assets and the likelihood of the assets ever having to be returned to the grantors is remote.

*Refundable Advances:* Conditional contribution revenue is recognized when earned, which is when one or more barriers have been overcome, or no right of return to the contributor exists. Funds received that are not earned as of year-end are recorded as a liability under refundable advances. The refundable advances balance at December 31, 2022 was \$11,900.

*Leases:* The Organization adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 2016-02 Topic 842, *Leases*, which supersedes FASB ASC Topic 840, *Leases*, and makes other conforming amendments to U.S. GAAP. FASB ASC 2016-02 Topic 842 requires, among other changes to the lease accounting guidance, lessees to recognize most leases on the statement of financial position via a right-of-use (ROU) asset and lease liability as well as additional qualitative and quantitative disclosures.

Beginning on January 1, 2022, operating lease assets and liabilities are measured and recorded at the present value of the future minimum lease payments. The determination of whether an arrangement is a lease is made at the lease's inception. An arrangement is (or contains) a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is defined under the standard as having both the right to obtain substantially all of the economic benefits from use of the asset and the right to direct the use of the asset. Management only reassesses its determination if the terms and conditions of the contract are changed. If the interest rate implicit in its leases is not readily determinable, the Organization uses the incremental borrowing rate on its line of credit to determine the present value of lease payments. Leases with an initial term of twelve (12) months or less are not recorded on the statement of financial position.

The Organization adopted these ASUs effective January 1, 2022 and utilized all of the available practical expedients. The adoption had a material impact on the Organization's statement of financial position but did not have a material impact on the statement of activities and changes in net assets. Adoption of the standard required the Organization to restate amounts as of January 1, 2022, resulting in an increase in operating lease ROU assets and lease liabilities of \$423,761, with a de minimis increase in finance lease ROU assets and liabilities.

THE FOOD BASKET INC.

Notes to the Financial Statements  
December 31, 2022

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

*Use of Estimates:* The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

*Contributed Nonfinancial Assets:* Under FASB ASC 958, contributions of donated goods or services that create or enhance non-financial assets or that require specialized skills, and are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received. See Note 3.

*Functional Expenses:* The financial statements include a statement of functional expenses. Functional expenses are allocated to program related and administrative functions. Expense allocations are generally computed based on the direct costs of performing program or administrative functions.

*Special Events Income:* When an event is peripheral or incidental, the Organization reports the net amount of revenue and direct costs for the special event. Events are considered peripheral or incidental if they are not an integral part of the Organization's activities or are not significant in relation to the Organization's annual budget.

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

*Net Assets Without Donor Restrictions:* Net assets without donor restrictions include all resources that are not subject to donor-imposed stipulations or contributions with donor-imposed restrictions that are met during the same year as the contributions made. Net assets without donor restrictions denoted as property and equipment represent equity in such property and equipment. Net assets without donor restrictions may be designated by the Board of Directors for specific purpose at any time. The Board of Directors has selected certain net assets without donor restrictions to be identified as Board Designated net assets for the Hawai'i Island Agricultural Innovation Park Capital Campaign. Board of Director Designated Net Assets at December 31, 2022 was \$452,766.

*Net Assets With Donor Restrictions:* Net assets with donor restrictions include amounts that the donor subjects to restrictions in perpetuity and amounts subject to legal or donor-imposed stipulations that may or will be met either by actions of the Organization and/or passage of time. Contributions with restriction are reported as increases in net assets with donor restriction. When the restriction is met, the amount is reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. If a donation with restrictions is received and the purpose is met during the year, it is reported as net assets without restrictions.

Net assets with donor restrictions consists of the following at December 31, 2022:

Capital Campaign	\$ 1,680,725
Hawaii Good Food Alliance (HGFA)	758,080
Double Up Food Bucks (DA BUX)	98,145
COVID-19 and Emergency Food	74,812
Other Donor Restricted	7,866
	<u>\$ 2,619,628</u>

THE FOOD BASKET INC.

Notes to the Financial Statements  
December 31, 2022

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

*Income Taxes:* The Organization is exempt from federal income taxes pursuant to Internal Revenue Code Section 501(c)(3), and exempt from state income taxes under Section 237-23(b) of the Hawai'i Revised Statutes. Therefore, no provision for federal or state income taxes is required for the financial statements.

The accounting standard on accounting for uncertainty in income taxes addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under that guidance, the Organization may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the Organization and various positions related to the potential sources of unrelated business taxable income (UBIT). The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement.

There were no unrecognized tax benefits identified or recorded as liabilities for fiscal year 2022. The Organization files its *Forms 990* in the U.S. federal jurisdiction and the office of the state's Attorney General for the State of Hawai'i. The Organization is generally no longer subject to examination by the Internal Revenue Service for years before 2019.

Note 3. CONTRIBUTED NONFINANCIAL ASSETS

The Organization has adopted Accounting Standards Update (ASU) 2020-07, Not-for-Profit Entities (Topic 958): *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. ASU 2020-07 improves financial reporting by providing new presentation and disclosure requirements about contributed nonfinancial assets, including additional disclosure requirements for recognized contributed services. The adoption of ASU 2020-07 impacted the financial statement presentation of the Organization as it had not previously presented contributed nonfinancial assets in a manner consistent with ASU 2020-07. For the year ending December 31, 2022, the Organization received the following contributed nonfinancial assets:

Food Donations (Note 7)	\$ 3,896,226
Food Gift Cards	76,520
Vehicle	<u>20,000</u>
Total	<u>\$ 3,992,746</u>

All contributed nonfinancial assets received by the Organization for the year ending December 31, 2022 were considered without donor restrictions, and able to be used by the Organization as determined by the board of directors and management.

THE FOOD BASKET INC.

Notes to the Financial Statements  
December 31, 2022

Note 4. PRIOR PERIOD ADJUSTMENT

As a result of an accounting error related to the amortization of leasehold improvements over the shorter of the useful life of those leasehold improvements and the expected remaining lease terms, a prior period adjustment was recorded for the years prior to 2022. The effect of the restatement on the statement of financial position and statement of activities and change in net assets as of and for the year ended December 31, 2021 are as follows:

	2021	
	As previously reported	Restated
Accumulated Depreciation and Amortization	\$ 727,534	\$ 940,340
Operating Property and Equipment	\$ 1,360,506	\$ 1,147,700
Net Assets Without Donor Restrictions	\$ 6,643,965	\$ 6,431,159
Total Net Assets	\$ 8,118,472	\$ 7,905,666

Note 5. UNUSED LINE OF CREDIT

The Organization has established a line of credit with Central Pacific Bank in the amount of \$250,000 pursuant to a Revolving Credit Agreement dated October 15, 2012. The line of credit has been renewed annually with a date of maturity of May 31, 2023. It was subsequently renewed through May 31, 2024 in the amount of \$500,000, with an interest rate equal to the sum of the bank base rate plus 1.25%, with an interest floor rate of 4.0%. No balance is due as of December 31, 2022.

Note 6. RELATED PARTIES AND TRANSACTIONS

*Land - Ponahawai Street:* In April 2022, the Organization purchased 24.5 acres off Ponahawai Street in Hilo, Hawai'i from a third-party, for-profit corporation whose CEO and President is on the Board of Directors of the Organization. The purchase price was for approximately \$1,600,000. The land carries a ten (10) year deed restriction where the property shall be used primarily for the manufacture, storage, distribution and sale of food products serving the residents of Hawai'i Island, and if the Organization elects to sell or transfer the property within the deed restriction period to any other entity not engaged in the above mission, any profits above the sales price are hereby forfeited and will be forwarded to the grantor. The land is intended to be used for the development of the Hawai'i Island Agricultural Innovation Park.

*Hawai'i Good Food Alliance (HGFA) Fiscal Sponsorship:* The Organization acts as fiscal sponsor for the HGFA for a capacity building project, with private foundation funding of \$750,000 between 2020 and 2022. For the year ending December 31, 2022, the Organization received \$500,000 recognized in contributions revenue from a private foundation to support HGFA, as well as approximately \$32,000 in funding through a United States Department of Agriculture - National Institute of Food and Agriculture (USDA NIFA) grant in support of the HGFA Hawai'i Food Hub Hui.

Additionally, the DA BUX program is administered by the Organization in partnership with the HGFA.

The Executive Director of the Organization is also the Treasurer of the Board of Directors of HGFA.

# THE FOOD BASKET INC.

## Notes to the Financial Statements December 31, 2022

### Note 7. CONCENTRATIONS

For the year ending December 31, 2022, the Organization received \$3,896,266 of its revenue from donated food. There are inherent risks whenever a large percentage of total revenues are concentrated with a few customers. Significant reductions, if any, could have an adverse effect on the Organization's ability to continue operations. The Organization does not expect that the support from these contributors will be lost in the near term.

### Note 8. LEASES

*Facility and Property Operating Leases:* The Organization leases warehouse and office space in Hilo and Kailua-Kona, and previously in Kea'au under operating leases expiring at various dates which renew based on negotiated amounts.

*Warehouse and Office in Hilo:* The Organization purchased a building located on 40 Holomua Street, Hilo, Hawai'i in 2011 in the amount of \$57,160, with additional improvements. The land is situated on leasehold property which the Organization is leasing from the State of Hawai'i, Department of Land and Natural Resources. The lease grants the Organization a lease term commencing May, 2011 and ending January, 2016. The lease has been extended up to January 15, 2026. The annual lease rent is \$1,500 payable in an annual rental installment commencing in January, 2016 and every year during the term. No amounts have been reflected in the statements for the donated portion of the lease inasmuch as no objective basis is available to measure the value of its use.

*Office in Hilo:* The Organization leases office space located at 1284 Kilauea Avenue, Hilo, Hawai'i. Pursuant to this lease dated August, 2021, the term will be three (3) years commencing October, 2021 and ending October, 2022 with a base rent of \$2,304 per month inclusive of Hawai'i State General Excise taxes. The lease allows an option to renew for three years at \$2,419 per month.

*Warehouse in Kailua-Kona:* In December, 2015, the Organization entered into a lease agreement with the County of Hawai'i, Office of Housing and Community Development entered into a lease agreement for warehouse space located at 73-4161 Ulu Wini Pl., Kailua-Kona, Hawai'i. The term of the lease agreement is for ten (10) years with the option to renew for additional five-year terms with lease rent based on \$0.40 per square foot in years two (2) through five (5). Every five years, the rent will be adjusted according to 50% of the fair market value for unimproved commercial warehouse spaces as determine by the County of Hawai'i and the Organization.

*Warehouse in Kea'au:* In August, 2018, the Organization entered into a lease agreement with a private party for warehouse space located at 16-313 Shipman Road, Bottom Bldg., Quad 3, Kea'au, Hawai'i. The term of the lease agreement was month-to-month with varying payments based on the number of shipping bays used at \$.75 per square foot, but space was utilized at \$2,939 per month over the lease term. This lease was terminated in March, 2023.

As of December 31, 2022, the operating lease ROU assets for these leases had a balance of \$356,415, as shown in other noncurrent assets on the statement of financial position; the lease liabilities are included in current liabilities (\$59,675) and long-term liabilities (\$298,394). The weighted average remaining lease term was 9.6 years, and the weighted average discount rate was 4.50%.



THE FOOD BASKET INC.

Notes to the Financial Statements  
December 31, 2022

Note 8. LEASES (Concluded)

Maturities of facility and property operating lease liabilities as of December 31:

2023	\$ 60,718
2024	51,901
2025	51,901
2026	51,901
2027	43,490
Thereafter	<u>178,262</u>
Total Lease Payments	438,173
Less: Interest	<u>(80,104)</u>
Present Value of Lease Liabilities	<u>\$ 358,069</u>

*Equipment Finance Leases:* In addition, the Organization leases office equipment (printers, copiers, postage machines and phone systems) for administrative use under finance leases with varying expiration dates through December 2026. The assets and liabilities under finance lease are recognized at the lower of the present value of the minimum lease payments or the fair value of the asset. The assets are amortized over the shorter of their estimated productive lives and the remaining lease term. Amortization of assets under finance lease is included in depreciation and amortization expense for the year ended December 31, 2022.

As of December 31, 2022, the finance lease ROU assets for these leases had a balance of \$51,605, as shown in other noncurrent assets on the statement of financial position; the lease liabilities are included in current liabilities (\$15,499) and long-term liabilities (\$37,155). The weighted average remaining lease term was 3.7 years, and the weighted average discount rate was 6.70%.

Maturities of equipment finance lease liabilities as of December 31:

2023	\$ 16,485
2024	15,667
2025	15,394
2026	<u>12,332</u>
Total Lease Payments	59,878
Less: Interest	<u>(7,224)</u>
Present Value of Lease Liabilities	<u>\$ 52,654</u>

Note 9. COMMITMENTS

In January 2023, the Organization completed a second amendment to its professional services agreement for consulting services related to the predevelopment phase of the Hawai'i Island Agricultural Innovation Park. Total costs associated with the contract total \$129,000, payable in installments between January and June, 2023.

THE FOOD BASKET INC.

Notes to the Financial Statements  
December 31, 2022

Note 10. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

Management's policy is to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due.

Financial Assets at December 31, 2022	
Cash and Cash Equivalents	\$ 2,609,785
Restricted Cash	3,559,120
Total Financial Assets	6,168,905
Less: Restricted by Donor	(2,619,628)
Less: Cash Restricted by Management and the Board of Directors for Long-Term Development Project (Note 2)	(939,492)
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	<u>\$ 2,609,785</u>

Note 11. DEPOSITS WITH FINANCIAL INSTITUTIONS

The Organization maintains its cash accounts at several financial institutions. Balances at times may exceed the Federal Deposit Insurance Corporation (FDIC) insured limit of \$250,000 per financial institution. Management acknowledges the possibility of risk in this arrangement; however, the size and longevity of the depository institution minimizes such risk. The following represents a summary of deposits as of December 31, 2022:

Fully Insured Deposits	\$ 1,230,323
Uninsured and Uncollateralized	4,879,567
Undeposited Funds	59,015
Total Cash and Cash Equivalents and Cash - Designated By Donors	<u>\$ 6,168,905</u>

Note 12. ADVERTISING AND MARKETING

The Organization uses advertising to promote its program services as well as its employment opportunities. The costs of advertising are expensed the first time the advertising takes place. For the year ending December 31, 2022, advertising and marketing expense was \$158,557.

Note 13. RECENT ACCOUNTING PRONOUNCEMENTS

In June 2016, the FASB issued ASU 2016-13, Financial Instruments—Credit Losses (Topic 326), *Measurement of Credit Losses on Financial Instruments*. The standard's main goal is to improve financial reporting by requiring earlier recognition of credit losses on financing receivables and other financial assets in scope. For entities that have adopted the amendments in ASU 2016-13, the amendments in this update are effective for fiscal years beginning after December 15, 2022. The provisions are effective for the Organization's fiscal year ending December 31, 2023. Management is currently evaluating the impact that the adoption of these provisions will have on the financial statements.

THE FOOD BASKET INC.

Notes to the Financial Statements  
December 31, 2022

Note 14. SUBSEQUENT EVENTS

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through August 30, 2023, the date the financial statements were available to be issued.

In March 2023, the Organization incorporated Friends of Hawai'i Island Food Basket. The purpose of the new corporation is to assist the Organization in seeking and raising funds to support the development of the Hawai'i Island Agricultural Innovation Park.

In February and March, 2023, the Organization entered into separate leases at 1284 Kilauea Avenue, Hilo, Hawai'i, Units 3 and 4, for additional warehouse space. Both leases expire in September 2027, with monthly lease payments of \$1,066 for Unit 3 and \$2,668 for Unit 4.

As discussed in Note 9, in January 2023, the Organization committed to a consulting services related to the predevelopment phase of the Hawai'i Island Agricultural Innovation Park.

There are no other recognized subsequent events, events that provide additional evidence about conditions that existed at the statement of financial position date, or non-recognized subsequent events, or events that provide evidence about conditions that did not exist at the statement of financial position date, which are necessary to disclose to keep the financial statements from being misleading.

THE FOOD BASKET INC.

Schedule of Expenditures of Federal Awards  
For the Year Ended December 31, 2022

Federal Grantor / Pass-through Grantor/ Program Title	Assistance Listing	Grant Number	Federal Expenditures
<b>United States Department of Homeland Security</b>			
Emergency Food and Shelter National Board Program	97.024	210800-023	\$ 74,986
Emergency Food and Shelter National Board Program	97.024	210800-023	20,000
<b>Total United States Department of Homeland Security direct programs</b>			<b>94,986</b>
<b>United States Department of Agriculture</b>			
National Institute of Food and Agriculture			
Food Insecurity Nutrition Incentive Grants Program	10.331	2021-70030-35786	596,834
COVID 19 Food Insecurity Nutrition Incentive Grants Program	10.331	2021-70034-35360	1,534,018
<b>Sub-total United States Department of Agriculture direct programs</b>			<b>2,130,851</b>
<b>Pass Through from Fair Food Network</b>			
Food Insecurity Nutrition Incentive Grants Program	10.331	2019-70030-30415	50,000
<b>Sub-total Pass Through from Fair Food Network</b>			<b>50,000</b>
			<b>2,180,851</b>
National Institute of Food and Agriculture			
Community Food Projects	10.225	2023-70438-38718	14,568
<b>Sub-total USDA Community Food Projects direct programs</b>			<b>14,568</b>
<b>Pass Through from Hawaii Good Food Alliance</b>			
National Institute of Food and Agriculture			
Regional Food System Partnerships	10.177	AM21RFSPHI1019	31,645
<b>Sub-total Pass Through from Hawaii Good Food Alliance</b>			<b>31,645</b>
<b>Pass Through from the State of Hawaii</b>			
Department of Labor and Industrial Relations			
Emergency Food Assistance Program - Food Commodities	10.569	OCS-TEFAP Non cash assistance	1,372,598
Emergency Food Assistance Program - Administrative Costs	10.568	OCS-TEFAP	45,428
Emergency Food Assistance Program - Administrative Costs	10.568	OCS-TEFAP	47,335
Emergency Food Assistance Program - Administrative Costs	10.568	OCS-TEFAP	7,113
Commodity Supplemental Food Program	10.565	OCS-CSFP Non cash assistance	720,549
Commodity Supplemental Food Program	10.565	OCS-CSFP	80,312
Department of Health and Human Services			
Emergency Food Assistance Program - Administrative Costs	10.568	OCS-TRRG-22-03	1,941
<b>Sub-total Pass Through USDA Food Distribution Cluster</b>			<b>2,275,276</b>
<b>Pass Through from the State of Hawaii</b>			
Department of Human Services			
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	DHS-21-SNAP-0057	59,229
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	DHS-21-SNAP-0057	23,141
<b>Sub-total Pass Through from State of Hawaii</b>			<b>82,370</b>
			<b>4,584,710</b>
<b>United States Department of the Treasury</b>			
<b>Pass Through from the State of Hawaii</b>			
Department of Labor and Industrial Relations			
COVID 19 Coronavirus State and Local Fiscal Recovery Funds	21.027	OCS-SEFAP-23-03	61,369
<b>Sub-total Pass Through from the State of Hawaii</b>			<b>61,369</b>
<b>Pass Through from The County of Hawaii</b>			
COVID 19 Coronavirus State and Local Fiscal Recovery Funds	21.027	C.009840	510,000
COVID 19 Coronavirus State and Local Fiscal Recovery Funds	21.027	C.010422	587,752
<b>Total Pass Through from The County of Hawaii</b>			<b>1,097,752</b>
			<b>1,159,121</b>
<b>Total United States Department of the Treasury</b>			<b>1,159,121</b>
<b>Total expenditures of federal awards</b>			<b>\$ 5,838,818</b>

THE FOOD BASKET INC.

Notes to the Schedule of Expenditures of Federal Awards  
For the Year Ended December 31, 2022

Note A. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of The Food Basket Inc. (the Organization) programs of the federal government for the year ended December 31, 2022.

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

Note B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

*Indirect Cost Rate:* The Organization has elected not to use the 10% de minimis indirect cost rate allowed under the *Uniform Guidance*.

*Matching Requirements:* Certain Federal Programs require The Food Basket Inc. to contribute non-Federal matching funds to support the Federally-funded programs. The Organization has met the matching requirements. The Schedule does not include the expenditure of non-Federal matching funds.

Note C. SUBRECIPIENT PASS THROUGH AWARDS

No federal awards were passed through to subrecipients.

Note D. NON CASH ASSISTANCE

The amount of food commodities reported on this schedule is the value of commodities received by the Organization and valued at \$1.92 per pound for the year ending December 31, 2022 based on a study conducted by Feeding America. See Note 2.

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

To the Board of Directors and Management of  
The Food Basket Inc.  
Hilo, Hawai'i, 96720

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The Food Basket Inc. (a nonprofit corporation), which comprise the statement of financial position as of December 31, 2022, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 30, 2023.

**Report on Internal Control over Financial Reporting**

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

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

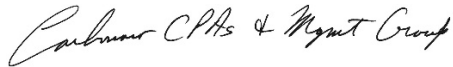
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not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

## **Report on Compliance and Other Matters**

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

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



Hilo, Hawai'i  
August 30, 2023

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

To the Board of Directors and Management of  
The Food Basket Inc.  
Hilo, Hawai'i, 96720

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

***Opinion on Each Major Federal Program***

We have audited The Food Basket Inc.'s compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of The Food Basket Inc.'s major federal programs for the year ended December 31, 2022. The Food Basket Inc.'s major federal programs are identified in the Summary of Audit Results section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, The Food Basket Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2022.

***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; 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 Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of The Food Basket Inc. 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 each major federal program. Our audit does not provide a legal determination of The Food Basket Inc.'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 Food Basket Inc.'s federal programs.



## ***Auditors' 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 Food Basket Inc.'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 generally accepted auditing standards, *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 Food Basket Inc.'s compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *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 Food Basket Inc.'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 Food Basket Inc.'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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of The Food Basket Inc.'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.

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' 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.

*Carlson CPAs & Mgmt Group*

Hilo, Hawai'i  
August 30, 2023

THE FOOD BASKET INC.

Schedule of Findings and Questioned Costs  
For the Year Ended December 31, 2022

**A. SUMMARY OF AUDIT RESULTS**

Financial statements

Type of Auditors' report issued: **Unmodified**

Internal control over financial reporting:

- Significant Deficiencies **No**
- Material Weaknesses **No**

Noncompliance which is material to the financial statements noted: **No**

Federal Awards

Internal control over Major Programs:

- Significant Deficiencies **No**
- Material Weaknesses **No**

Type of Auditors' report issued in regards to major program compliance: **Unmodified**

Any audit findings disclosed that are required to be reported in accordance with section 200.516 of the Uniform Guidance? **No**

The programs tested as the major program:

<b>Federal Grantor / Pass-through Grantor/ Program Title</b>	<b>Assistance Listing</b>	<b>Grant Number</b>	<b>Federal Expenditures</b>
<b>United States Department of the Treasury:</b>			
Coronavirus State and Local Fiscal Recovery Funds	21.027	C.009840	\$ 510,000
Coronavirus State and Local Fiscal Recovery Funds	21.027	C.010422	\$ 587,752
Coronavirus State and Local Fiscal Recovery Funds	21.027	OCS-SEFAP-23-03	\$ 61,369
<b>United States Department of Agriculture</b>			
Regional Food System Partnerships	10.177	AM21RFSPHI1019	\$ 31,645

The threshold for distinguishing between Type A and Type B programs was **\$750,000**

Auditee qualified as a low-risk auditee **Yes**

**B. FINANCIAL STATEMENT FINDINGS**

None noted.

**C. FINDINGS AND QUESTIONS COSTS - MAJOR FEDERAL AWARD PROGRAM**

None noted.

**D. SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

None