

KONA HOSPITAL FOUNDATION
FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016
(WITH INDEPENDENT AUDITOR'S REPORT)

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Taketa, Iwata, Hara & Associates, LLC

Certified Public Accountants & Consultants

101 Aupuni Street, Suite 139

Hilo, Hawaii 96720-4260

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

The Board of Trustees
Kona Hospital Foundation:

Report on the Financial Statements

We have audited the accompanying financial statements of Kona Hospital Foundation (Foundation), which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

The Foundation's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by the Foundation's management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kona Hospital Foundation, as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Taketa, Iwata, Hara & Associates, LLC

Hilo, Hawaii
September 13, 2018

KONA HOSPITAL FOUNDATION

Statements of Financial Position

December 31, 2017 and 2016

<u>Assets</u>	<u>2017</u>	<u>2016</u>
Current assets:		
Cash and cash equivalents	\$ 701,381	\$ 1,037,146
Other receivable	-	3,020
Auction items	6,149	6,814
Investments in marketable securities	<u>534,709</u>	<u>339,752</u>
Total current assets	1,242,239	1,386,732
Office equipment	5,972	5,972
Less accumulated depreciation	<u>5,972</u>	<u>5,505</u>
Net office equipment	-	467
Unconditional promises to give	121,950	145,956
Beneficial interest in perpetual trust	<u>1,470,000</u>	<u>1,543,000</u>
Total assets	<u>\$ 2,834,189</u>	<u>\$ 3,076,155</u>
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Unconditional promises made	<u>\$ 329,197</u>	<u>\$ 329,197</u>
Total current liabilities	<u>329,197</u>	<u>329,197</u>
Net assets:		
Unrestricted:		
Board designated	150,000	150,000
Unreserved	<u>644,868</u>	<u>617,993</u>
Total unrestricted	794,868	767,993
Temporarily restricted	240,124	435,965
Permanently restricted	<u>1,470,000</u>	<u>1,543,000</u>
Total net assets	<u>2,504,992</u>	<u>2,746,958</u>
Total liabilities and net assets	<u>\$ 2,834,189</u>	<u>\$ 3,076,155</u>

See accompanying notes to financial statements.

KONA HOSPITAL FOUNDATION

Statement of Activities

For the year ended December 31, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public support and revenues:				
Donations	\$ 37,810	\$ 16,659	\$ -	\$ 54,469
Event income	31,083	-	-	31,083
Unrealized loss on valuation of perpetual trust	-	-	(73,000)	(73,000)
Alberta E. Brown Trust income	44,208	-	-	44,208
investment gains	53,843	-	-	53,843
Interest income and dividends	15,207	-	-	15,207
Other income	2,192	-	-	2,192
Total public support and revenues	184,343	16,659	(73,000)	128,002
Net assets released from restrictions:				
Restrictions satisfied by payments	212,500	(212,500)	-	-
Expenses:				
Program services	234,399	-	-	234,399
Support services	92,812	-	-	92,812
Fundraising	42,757	-	-	42,757
Total expenses	369,968	-	-	369,968
Total increase (decrease) in net assets	26,875	(195,841)	(73,000)	(241,966)
Net assets at beginning of year	767,993	435,965	1,543,000	2,746,958
Net assets at end of year	\$ 794,868	\$ 240,124	\$ 1,470,000	\$ 2,504,992

See accompanying notes to financial statements.

KONA HOSPITAL FOUNDATION

Statement of Activities

For the year ended December 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public support and revenues:				
Donations	\$ 37,953	\$ 25,984	\$ -	\$ 63,937
Event income	64,852	-	-	64,852
Unrealized gain on valuation of perpetual trust Alberta E. Brown Trust income	-	-	(78,000)	(78,000)
Investment income	44,049	-	-	44,049
Interest income and dividends	672	-	-	672
Other income	11,407	-	-	11,407
	6,665	-	-	6,665
Total public support and revenues	165,598	25,984	(78,000)	113,582
Net assets released from restrictions:				
Restrictions satisfied by payments	83,740	(83,740)	-	-
Expenses:				
Program services	88,474	-	-	88,474
Support services	75,767	-	-	75,767
Fundraising	57,989	-	-	57,989
Total expenses	222,230	-	-	222,230
Total increase (decrease) in net assets	27,108	(57,756)	(78,000)	(108,648)
Net assets at beginning of year	740,885	493,721	1,621,000	2,855,606
Net assets at end of year	\$ 767,993	\$ 435,965	\$ 1,543,000	\$ 2,746,958

See accompanying notes to financial statements.

KONA HOSPITAL FOUNDATION

Statement of Functional Expenses

For the year ended December 31, 2017

	Program services	Supporting Activities		Total
		Management and General	Fundraising	
Support to Kona Hospital	\$ 225,135	\$ -	\$ -	\$ 225,135
Payroll leasing	9,124	54,746	27,373	91,243
Professional fees	-	22,145	1,201	23,346
Merchant service fees	-	8,319	1,604	9,923
Event catering	-	-	9,531	9,531
Other	-	3,061	-	3,061
Printing and reproduction	-	2,597	1,095	3,692
Taxes	-	-	1,391	1,391
Office supplies	-	951	-	951
Insurance	-	713	-	713
Auction items	-	-	472	472
Postage	-	-	43	43
Total expenses before depreciation	234,259	92,532	42,710	369,501
Depreciation	140	280	47	467
	\$ 234,399	\$ 92,812	\$ 42,757	\$ 369,968

See accompanying notes to financial statements.

KONA HOSPITAL FOUNDATION

Statement of Functional Expenses

For the year ended December 31, 2016

	Program services	Supporting Activities		Total
		Management and General	Fundraising	
Payroll leasing	\$ 8,436	\$ 42,180	\$ 33,744	\$ 84,360
Support to Kona Hospital	79,990	-	-	79,990
Professional fees	-	21,145	1,458	22,603
Event catering	-	-	12,109	12,109
Merchant service fees	-	6,398	2,744	9,142
Event other costs	-	-	3,520	3,520
Printing and reproduction	-	2,589	-	2,589
Taxes	-	-	2,214	2,214
Other	-	1,928	-	1,928
Postage	-	478	1,078	1,556
Insurance	-	700	-	700
Auction items	-	-	526	526
Event entertainment	-	-	400	400
Office supplies	-	104	-	104
Total expenses before depreciation	88,426	75,522	57,793	221,741
Depreciation	48	245	196	489
	\$ 88,474	\$ 75,767	\$ 57,989	\$ 222,230

See accompanying notes to financial statements.

KONA HOSPITAL FOUNDATION

Statements of Cash Flows

For the years ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Change in cash and cash equivalents:		
Cash flows from operating activities:		
Cash received from support and revenues	\$ 159,171	\$ 176,840
Cash paid for expenses	(369,029)	(222,277)
Interest and dividends received	15,207	11,407
Net cash used by operating activities	<u>(194,651)</u>	<u>(34,030)</u>
Cash flows from investing activities:		
Proceeds from the sale of investments	144,844	286,982
Purchase of investments	(285,958)	(81,897)
Net cash (used) provided by investing activities	<u>(141,114)</u>	<u>205,085</u>
Net (decrease) increase in cash	(335,765)	171,055
Cash and cash equivalents at beginning of year	<u>1,037,146</u>	<u>866,091</u>
Cash and cash equivalents at end of year	<u>\$ 701,381</u>	<u>\$ 1,037,146</u>
Reconciliation of change in net assets to net cash used by operating activities:		
Decrease in net assets	\$ (241,966)	\$ (108,648)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Donated auction items received	(14,236)	(18,475)
Donated auction items sold	14,429	15,507
Investment gain	(53,843)	(672)
Depreciation expense	467	489
Unrealized loss on valuation of perpetual trust	73,000	78,000
Effect of changes in other statement of financial position accounts:		
Other receivable	3,020	305
Auction items	472	526
Unconditional promises to give	24,006	(984)
Accounts payable	-	(78)
Total adjustments	<u>47,315</u>	<u>74,618</u>
Net cash used by operating activities	<u>\$ (194,651)</u>	<u>\$ (34,030)</u>

Supplemental Disclosure of Cash Flow Information:

There were no non-cash investing and financing activities in 2017 and 2016.

See accompanying notes to financial statements.

KONA HOSPITAL FOUNDATION

Notes to Financial Statements

December 31, 2017 and 2016

(1) Organization

Nature of Operations

The Kona Hospital Foundation (Foundation) was established in July 1984 for the purpose of providing funding for improvements and equipment at the Kona Community Hospital, located in Kealahou on the Big Island of Hawaii. The Foundation is a nonprofit organization and relies primarily on donations and fundraisers to fund its operations.

(2) Summary of Significant Accounting Policies

Basis of Presentation

The financial statements of the Foundation have been prepared in accordance with generally accepted accounting principles in the United States of America. Under this method of accounting, revenue is recognized when earned rather than when received and expenses are recognized when incurred rather than when paid.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those assumptions and estimates.

Financial Statement Presentation

The Foundation reports information regarding its financial position and activities according to three classes of net assets:

Unrestricted net assets – Net assets that are not subject to donor imposed stipulations and includes those assets over which the Board of Trustees designated for specific purposes.

Temporarily restricted net assets – Net assets subject to donor imposed stipulations that will be met either by actions of the Foundation and/or the passage of time. Temporarily restricted contributions for which the restrictions are satisfied in the same year the contribution is received are reflected as unrestricted net assets in the accompanying financial statements.

Permanently restricted net assets – Net assets subject to donor imposed stipulations that are maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use all or part of the income earned for general or specific purposes.

The Foundation had unrestricted, temporarily restricted, and permanently restricted net assets as of December 31, 2017 and 2016.

KONA HOSPITAL FOUNDATION

Notes to Financial Statements, Continued

Cash and Cash Equivalents

The Foundation considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Office Equipment

Office equipment are stated at cost or fair value at date of donation. All assets acquired by the Foundation whose initial value or cost exceeds \$5,000 are capitalized and depreciated. Major renewals and betterments are also capitalized, while repairs and maintenance, which do not improve or extend the lives of assets, are charged to expense in the statement of activities.

Depreciation is calculated by the straight-line method over the estimated useful lives of the equipment. Depreciation lives are estimated at five years. Depreciation expense was \$467 and \$489 for the years ended December 31, 2017 and 2016, respectively.

Fair Value Measurement

The Foundation has implemented FASB ASC 820-10-50-1 which establishes a fair value hierarchy for inputs used in measuring fair market value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on the best information available in the circumstances. This fair value hierarchy consists of three broad levels:

- Level 1 inputs consist of unadjusted quoted prices in active markets such as stock exchanges for identical assets and have the highest priority.
- Level 2 inputs consist of significant other observable inputs such as quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset and liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 inputs consist of significant unobservable inputs and include situations where there is little, if any, market activity for the investment. The inputs require significant judgement or estimates, such as those associated with discounted cash flow methodologies and appraisals.

The Foundation's Investments are measured at fair value on a recurring basis and valued using Level 1 inputs. There are no other assets or liabilities measured at fair value on a recurring or nonrecurring basis.

Donations

All donations are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. However, if a restriction is fulfilled in the same time period in which the donation is received, the Foundation reports the support as unrestricted.

KONA HOSPITAL FOUNDATION

Notes to Financial Statements, Continued

Promises to Give

Contributions are recognized when the donor makes a promise to give to the Foundation that is, in substance, unconditional at the time of the promise. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

The Foundation records unconditional promises to give that are for a period of less than one year at its net realizable value. The Foundation records unconditional promises to give that are for a period of more than one year at the present value of the future payments.

Unconditional Promises Made

Contributions made are recognized as expenses in the period made and as increases of liabilities depending on the form of the benefits given. The Foundation is a donor to Kona Community Hospital and unconditional promises made are accrued when the Foundation notifies Kona Community Hospital of their intent to reimburse the Hospital.

Noncash contributions

Support arising from donated goods, property and services is recognized in the financial statements at its fair value. Such contributions may be reflected in the financial statements if the services received (a) create or enhance nonfinancial assets or (b) required specialized skills that are provided by individuals possessing those skills that would typically need to be purchased if not provided by donation. The Foundation received a substantial amount of services donated by volunteers interested in the Foundation's programs. No amounts have been reflected in the accompanying financial statements for donated services as none of the services performed for the Foundation fulfilled the required criteria.

The Foundation received noncash donated items such as tickets, gift certificates, works of art, and merchandise to be used for fundraising purposes in 2017 and 2016. These noncash donated items are valued at the estimated fair market value at the time the items are received from the donor and recorded as auction inventory and noncash contributions. The difference between the amount received for those items from the buyer and the estimated fair market value of the donated item when originally contributed to the Foundation, will be recognized as adjustments to the originally recorded contribution when the item is transferred to the buyer.

Functional Allocation of Expenses

The costs of providing various donations to the Hospital and other activities have been summarized on a functional basis in the Statement of Activities and the Statement of Functional Expenses. Accordingly, certain costs have been allocated among programs, supporting services, and fundraising.

Advertising Costs

Advertising costs are expensed as incurred. The Foundation did not incur any advertising costs in 2017 and 2016.

KONA HOSPITAL FOUNDATION

Notes to Financial Statements, Continued

General Excise Tax

Hawaii general excise tax is imposed on fundraising income at four percent, which amounted to \$1,391 and \$2,214 for the years ended December 31, 2017 and 2016, respectively. General excise tax was reported as part of fundraising expenses in the accompanying Statement of Functional Expense.

Tax Status

The Foundation is classified as a tax exempt organization other than a private foundation under Section 501 (c)(3) of the U.S. Internal Revenue Code and is exempt from Federal and State income taxes. The Foundation files income tax returns in the U.S federal jurisdiction.

Accounting principles generally accepted in the United States of America require the effect of uncertain tax positions to be recognized in the financial statements if they are more likely than not to fail upon regulatory examination. Management is not aware of any uncertain tax positions. Tax returns are open for examination by the taxing authorities until the applicable statute of limitation expires.

(3) Unconditional Promises to Give

Unconditional promises to give consist of the following:

As of December 31:	2017	2016
Unconditional promises	\$ 121,950	\$ 183,956
Less: unamortized discount	-	38,000
	\$ 121,950	\$ 145,956
Amounts due in		
Less than one year	\$ -	\$ -
One to five years – net of discount	121,950	120,956
Thereafter	-	25,000
Total unconditional promises to give	\$ 121,950	\$ 145,956

Unconditional promises to give are from businesses and individuals located primarily on the island of Hawaii. In 2010 the Foundation received an unconditional promise to give from the Robert McClean Trust (Trust). The Trust gave the Foundation a 10% undivided interest in a \$250,000 note receivable. The present value of this multiyear unconditional promise to give is based on an interest rate of 6%, the stated rate of the underlying note receivable. The present value as of December 31, 2016 amounted to \$25,000. The McClean trust issued a final payment to the Foundation for the amount of \$25,000 in July 2017.

KONA HOSPITAL FOUNDATION

Notes to Financial Statements, Continued

In 2014 the Foundation received an unconditional promise to give from the Stolaroff Foundation in the amount of \$250,000 to be paid over a period of five years as of December 31, 2014. As of December 31, 2015 the Foundation has received a total of \$125,000. The Foundation did not receive any payments in 2016 or 2017 and the remaining balance of \$125,000 to be paid over a period of three years as of December 31, 2016. The unconditional promise to give as of December 31, 2017 and 2016 was discounted based on an interest rate of 1.65% until the last payment is made during the year ending December 31, 2019. The present value of the unconditional promise to give amounted to \$121,950 and \$120,956 as of December 31, 2017 and 2016, respectively. The amortization of the discount was included as part of temporarily restricted donations in the Statement of Activities.

(4) Investments in Marketable Securities

The investments in marketable securities owned by the Foundation consisted of the following:

	Cost	Cumulative Unrealized Gains (Losses)	Fair Value Measurements at Reporting Date Using Quoted Prices in Active Markets for Identical Assets (Level 1)
At December 31, 2017:			
Exchange traded funds and closed end funds	\$ 267,047	\$ 65,690	\$ 332,737
Stocks	37,903	9,163	47,066
Mutual Funds – Equity	84,619	425	85,044
Mutual Funds – Fixed Income	70,160	(298)	69,862
Total	\$ 459,729	\$ 74,980	\$ 534,709
	Cost	Cumulative Unrealized Gains	Fair Value Measurements at Reporting Date Using Quoted Prices in Active Markets for Identical Assets (Level 1)
At December 31, 2016:			
Exchange traded funds and closed end funds	\$ 152,480	\$ 57,325	\$ 209,805
Stocks	132,292	(2,345)	129,947
Mutual Funds – Equity	-	-	-
Mutual Funds – Fixed Income	-	-	-
Total	\$ 284,772	\$ 54,980	\$ 209,805

KONA HOSPITAL FOUNDATION

Notes to Financial Statements, Continued

Realized gains on the sale of investments amounted to \$33,843 and \$62,165 for the years ended December 31, 2017 and 2016, respectively. Cumulative unrealized gains amounted to \$74,980 and \$54,980 at December 31, 2017 and 2016, respectively.

The tables also sets forth, by level within the fair value hierarchy, the Foundation's investments in marketable securities measured at fair value on a recurring basis as of December 31, 2017 and 2016

(5) Unconditional Promises Made

The Foundation made unconditional promises to give the Kona Community Hospital in 2014 and 2013 for the operating room technology and the Cancer Center projects. The outstanding amounts for the operating room technology and the Cancer Center projects were \$96,742 and \$232,455, respectively, for the years ending December 31, 2017 and 2016.

(6) Board Designated Net Assets

There were no commitments made to the Kona Community Hospital related to this designation during the years ended December 31, 2017 and 2016. Board Designated Unrestricted Net Assets was \$150,000 as of December 31, 2017 and 2016.

(7) Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following uses:

At December 31:	2017	2016
Cancer Center	\$ 164,250	\$ 151,295
Telemetry System	-	212,500
Chapel Fund	70,125	70,125
Trauma Services Center	2,579	-
The Cancer Center: Infusion/Chemotherapy	1,045	1,045
Obstetrics Department: NRT Nursing Education	1,000	1,000
Medical Surgical	1,000	-
Obstetrics Department:	100	-
Operating Room	25	-
	\$ 240,124	\$ 435,965
Total		

(8) Permanently Restricted Net Assets

Permanently restricted net assets are comprised of a beneficiary interest in the Alberta E. Brown Trust (Trust). In 1991, the Foundation was named as a beneficiary of the Trust in perpetuity as long as it remains a non-private tax exempt organization. The carrying value of the perpetual trust was estimated based on the present value of future distributions using a five year moving average of the annual distributions and a five year moving average of the 30 year Treasury bill rate. The five year moving average interest rate was 3.10% in 2017 and 3.15% in 2016. The five year moving average of the distributed earnings received from the Trust amounted to \$45,553 in 2017 and \$48,602 in 2016.

KONA HOSPITAL FOUNDATION

Notes to Financial Statements, Continued

It is reasonably possible that a material change in the estimates regarding the beneficial interest in the perpetual trust may occur in the near term. Permanently restricted net assets changes are as follows:

	<u>Beneficial Interest in Perpetual Trust</u>
Balance at January 1, 2016	\$ 1,621,000
Investment earnings	44,049
Earnings transferred to unrestricted and temporarily restricted net assets	(44,049)
Unrealized gain on valuation of perpetual trust	<u>(78,000)</u>
Balance at December 31, 2016	<u>\$ 1,543,000</u>
Balance at January 1, 2017	\$ 1,543,000
Investment earnings	44,208
Earnings transferred to unrestricted and temporarily restricted net assets	(44,208)
Unrealized loss on valuation of perpetual trust	<u>(73,000)</u>
Balance at December 31, 2017	<u>\$ 1,470,000</u>

(9) Concentration of Credit Risk

At December 30, 2016 the Foundation had account balances that were insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. The amounts exceeding federally insured limits totaled \$200,639 as of December 31, 2016. The Foundation had no amounts exceeding federally insured limits as of December 31, 2017.

(10) Concentration Risk

The Foundation is dependent on donations, fundraising, and investment earnings to fund operations and its contributions to the Kona Community Hospital. Significant changes in these revenue sources may have an impact on the operations of the Foundation and its ability to make contributions to the Kona Community Hospital.

(11) Subsequent events

Management has evaluated subsequent events through September 13, 2018, the date the financial statements were available to be issued. There were no subsequent events that require adjustments to or disclosure in the financial statements.