

KONA HOSPITAL FOUNDATION
(A Hawaii Nonprofit Organization)

REVIEWED FINANCIAL STATEMENTS
(With Independent Accountant's Report)

FOR THE YEAR ENDED DECEMBER 31, 2019

KONA HOSPITAL FOUNDATION

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INDEPENDENT ACCOUNTANT'S REPORT

To the Board of Trustees and Management
Kona Hospital Foundation
Kealahou, Hawaii 96750

We have reviewed the accompanying financial statements of Kona Hospital Foundation (a Hawai'i nonprofit corporation), which comprise the statement of financial position as of December 31, 2019, and the related statements of activities and change in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management's Responsibility 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; 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.

Accountant's Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountant's Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Carbonaro CPAs + Management Group

Hilo, Hawaii
April 15, 2020

Kona Hospital Foundation

Statement of Financial Position
As of December 31, 2019

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents (Note 4)	\$ 746,617
Auction Inventory	2,449
Investments in Marketable Securities (Note 10)	<u>668,625</u>
Total Current Assets	1,417,691

OFFICE EQUIPMENT (Note 2)

Office Equipment	2,200
Accumulated Depreciation	<u>(2,200)</u>
Net Office Equipment	-

OTHER ASSETS

Beneficial Interest in Perpetual Trust (Note 3)	<u>1,580,000</u>
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TOTAL ASSETS

\$ 2,997,691

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts Payable	\$ 2,910
Unconditional Promises Made (Note 2)	<u>198,668</u>
Total Current Liabilities	<u>201,578</u>

TOTAL LIABILITIES

201,578

NET ASSETS (Note 3)

Net Assets Without Donor Restriction	949,000
Net Assets With Donor Restriction	<u>1,847,113</u>
Total Net Assets	<u>2,796,113</u>

TOTAL LIABILITIES AND NET ASSETS

\$ 2,997,691

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

Kona Hospital Foundation

Statement of Activities and Change in Net Assets For the Year Ended December 31, 2019

	Net Assets Without Donor Restriction	Net Assets With Donor Restriction	2019 Total
PUBLIC SUPPORT AND REVENUE			
Donations	\$ 155,366	\$ 15,160	\$ 170,526
Investment Gain	114,291	-	114,291
Unrealized Gain on Valuation of Perpetual Trust	-	50,000	50,000
Alberta E. Brown Trust Income	44,319	-	44,319
Event Income	31,126	-	31,126
Interest Income and Dividends	30,248	-	30,248
Net Assets Released from Restrictions	25,393	(25,393)	-
Total Public Support and Revenue	400,743	39,767	440,510
EXPENSES			
Program Services	42,833	-	42,833
Support Services	74,472	-	74,472
Fundraising	33,262	-	33,262
Total Expenses	150,567	-	150,567
CHANGE IN NET ASSETS	250,176	39,767	289,943
Net Assets, Beginning of year	698,824	1,807,346	2,506,170
Net Assets, End of year	\$ 949,000	\$ 1,847,113	\$ 2,796,113

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

Kona Hospital Foundation

Statement of Functional Expenses For the Year Ended December 31, 2019

	Program Services	Supporting Services		2019 Total
		Management and General	Fundraising	
Salaries and Wages	\$ 6,924	\$ 41,548	\$ 20,773	\$ 69,245
Donations to Kona Hospital (Note 2)	35,909	-	-	35,909
Professional Fees	-	22,717	1,180	23,897
Merchant Service Fees	-	5,619	1,150	6,769
Event Cost Expenses	-	-	7,379	7,379
Printing and Reproduction	-	1,756	753	2,509
Admin Expenses	-	720	813	1,533
Meals and Entertainment	-	1,345	-	1,345
General Excise Taxes (Note 2)	-	-	1,214	1,214
Insurance	-	767	-	767
Total Expenses Before Depreciation	42,833	74,472	33,262	150,567
Depreciation Expense	-	-	-	-
Total Expenses	\$ 42,833	\$ 74,472	\$ 33,262	\$ 150,567

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

Kona Hospital Foundation

Statement of Cash Flows
For the Year Ended December 31, 2019

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Support and Revenues	\$ 276,323
Interest and Dividends Received	30,248
Cash from Events	31,126
Cash Paid to Employees and Vendors	<u>(181,163)</u>
Net Cash Provided by Operating Activities (Note 8)	156,534
CASH FLOWS FROM INVESTING ACTIVITIES	
Net Proceeds/Purchase of Investments and Reinvestment of Earnings	<u>(83,522)</u>
Net Cash Used by Investing Activities	(83,522)
CASH FLOWS FROM FINANCING ACTIVITIES	
	-
Net Increase in cash and cash equivalents	<u>73,012</u>
Cash and cash equivalents, beginning of year	<u>673,605</u>
Cash and cash equivalents, end of year	<u><u>\$ 746,617</u></u>

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

Kona Hospital Foundation
Notes to the Financial Statements
December 31, 2019

Note 1. ORGANIZATION

The Kona Hospital Foundation (the Foundation) was established in July 1984, as a nonprofit corporation under the laws of the State of Hawaii for the purpose of providing funding for improvements and equipment at the Kona Community Hospital (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.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting: 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. For contributions and donations, revenue is recognized when the gift is received.

The Foundation has analyzed the provisions of the FASB's ASC Topic 606, *Revenue from Contracts with Customers*, and has concluded that no changes are necessary to conform to the new standard. Grants, contributions and other income do not have a specific performance obligation and are generally earned when received, or recorded as restricted funds and deferred revenue.

Use of 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.

Office Equipment: Office equipment is 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 are 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. There was no depreciation expense for the year ended December 31, 2019.

Contributions: All contributions are considered to be available for 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 net assets with donor restrictions. However, if a restriction is fulfilled in the same time period in which the donation is received, the Foundation reports the support as net assets without donor restrictions.

Donations to Kona Hospital: The Foundation is a donor to Kona Community Hospital. Donations made are recognized as expenses in the period made and as increases of liabilities depending on the form of the benefits given. Donations to the Hospital were \$35,909 for the year ended December 31, 2019.

Advertising Costs: Advertising costs are expensed as incurred. The Foundation incurred advertising costs of \$1,294 in the year ended December 31, 2019. Advertising costs are reported in the Event Cost expenses on the accompanying Statement of Functional Expenses.

Kona Hospital Foundation
Notes to the Financial Statements
December 31, 2019

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In-Kind Revenue: 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.

Non-cash Contributions: The Foundation received noncash donated items such as tickets, gift certificates, works of art, and merchandise to be used for fundraising purposes. 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. Expenses that can be identified with a specific program, fundraising, or supporting service are charged directly to the program, fundraising, or support service using natural expense classifications. Other expenses that are common to several functions are allocated by the Foundation based on estimates of time and effort expended.

General Excise Tax: Hawaii general excise tax is imposed on fundraising income at four percent, which amounted to \$1,214 for the years ended December 31, 2019.

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 the Hospital of their intent to reimburse them. The Foundation made unconditional promises to give to the Hospital beginning in 2013 for the Cancer Center project. During 2019, the Foundation disbursed \$33,787. The outstanding amount remaining for the Cancer Center project was \$198,668 as of December 31, 2019.

Note 3. NET ASSETS

In accordance with ASU 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-profit Entities, Kona Hospital Foundation is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restriction.

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 contribution is made. This includes assets which the Board of Trustees has designated for specific purposes.

Kona Hospital Foundation
Notes to the Financial Statements
December 31, 2019

Note 3. NET ASSETS (continued)

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 Foundation and/or passage of time. Generally, the donors of these assets permit the Foundation to use all or part of the income earned for general or specific purposes. The followings are the net assets with donor restrictions as of December 31, 2019:

Cancer Center	\$	196,988
Chapel Fund		70,125
Beneficiary Interest in Alberta E. Brown Trust		1,580,000
Total		\$ 1,847,113

Net assets with donor restrictions are also 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 2.84% in 2019. The five year moving average of the distributed earnings received from the Trust amounted to \$44,319 in 2019.

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. Changes to net assets with donor restrictions related to the beneficial interest in the perpetual trust are as follows:

		Beneficial Interest in Perpetual Trust
Balance at December 31, 2018	\$	1,530,000
Investment Earnings		44,319
Earnings transferred to Net Assets without Donor Restrictions		(44,319)
Unrealized Gain on Valuation of Perpetual Trust		50,000
Balance at December 31, 2019	\$	1,580,000

Note 4. CASH AND CASH EQUIVALENTS

Cash and Cash Equivalents: For the purpose of the statement of cash flows, cash is defined as demand deposits and highly liquid investments with an original maturity of three months or less to be considered cash equivalents. The Foundation had no amounts exceeding the Federal Deposit Insurance Corporation (FDIC) insured limit as of December 31, 2019.

During the year of 2019, the Foundation analyzed ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. Management believes that the new accounting standard has no effect on 2019 cash and cash equivalents.

Kona Hospital Foundation
Notes to the Financial Statements
December 31, 2019

Note 5. LIQUIDITY AND AVAILABILITY OF RESOURCES

The Foundation's policy is to maintain cash balances to provide for general expenditures, liabilities, and other obligations as they come due. The Foundation has the following financial assets available within one year of the balance sheet date to meet cash needs for general expenditures:

Cash and Cash Equivalents	\$ 746,617
Investment in Marketable Securities	668,625
Financial Assets at December 31, 2019	1,415,242
Less those unavailable to general expenditures within one year due to:	
Restricted by donor with purpose restriction	267,113
Financial assets available to meet cash needs for general expenditures within one year	\$ 1,148,129

Note 6. INCOME TAXES

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. The Foundation is generally no longer subject to examination by the Internal Revenue Service for years before 2016. Currently there are no examinations in progress.

Note 7. CONCENTRATION OF 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.

Note 8. RECONCILIATION OF CHANGE IN NET ASSETS WITH NET CASH PROVIDED BY OPERATING ACTIVITIES

Change in Net Assets	\$ 289,943
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Investment (Gain) Loss	(114,291)
Unrealized Gain on Valuation of Perpetual Trust	(50,000)
Change in Accounts Receivable	61,478
Change in Auction Inventory	601
Change in Accounts Payable	2,590
Change in Unconditional Promises Made	(33,787)
Net Cash Provided by Operating Activities	\$ 156,534

Kona Hospital Foundation
Notes to the Financial Statements
December 31, 2019

Note 9. SUBSEQUENT EVENTS

Management has evaluated subsequent events through April 15, 2020, the date the financial statements were available to be issued. Subsequent to the year end, the financial markets have experienced significant losses due to the COVID-19 outbreak. At the time these financial statements were available to be issued the situation remained very volatile and the full effect of the outbreak on the Foundation investment accounts could not be determined.

Note 10. INVESTMENTS IN MARKETABLE SECURITIES

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. The investments in marketable securities owned by the Foundation consisted of Level 1 inputs as follows:

	Cost	Cumulative Unrealized Gains(Losses)	Fair Value Measurements at Reporting Date Using Quoted Prices in Active Markets for Identical Assets (Level1)
At December 31, 2019:			
Exchange Trade Funds and Closed End Funds	\$ 238,792	\$ 109,842	\$ 348,634
Mutual Funds - Equity	188,840	4,772	193,612
Mutual Funds - Fixed Income	74,819	1,249	76,068
Government Securities	49,769	542	50,311
Total	\$ 552,220	\$ 116,405	\$ 668,625

Realized gains on the sale of investments amounted to \$9,196 for the year ended December 31, 2019. Cumulative unrealized gains amounted to \$116,405 for the year ended December 31, 2019.

Kona Hospital Foundation
Notes to the Financial Statements
December 31, 2019

Note 11. RECENT ACCOUNTING PRONOUNCEMENTS

In February 2016, the FASB issued ASU 2016-02, Leases, which supersedes FASB Accounting Standards Codification (ASC) Topic 840, Leases, and makes other conforming amendments to U.S. GAAP. ASU 2016-02, requires, among other changes to the lease accounting guidance, lessees to recognize most leases on the balance sheet via a right-of-use asset and lease liability as well as additional qualitative and quantitative disclosures. ASU 2016-02 is effective for the Foundation's fiscal years beginning December 15, 2020 (as amended in November 2019 by ASU 2019-10), but permits early adoption, and mandates a modified retrospective transition method. The provisions are effective for the Foundation's fiscal year ending December 31, 2021. Management is currently evaluating the impact that the adoption of these provisions will have on the financial statements, but does not expect ASU 2016-02 to add significant right-of-use assets and lease liabilities to the Statement of Financial Position.