

**KONA HOSPITAL FOUNDATION
(A Hawaii Nonprofit Organization)**

**REVIEWED FINANCIAL STATEMENTS
(With Independent Accountant's Report)**

FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

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 statements of financial position as of December 31, 2021 and 2020, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years 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 conclusions.

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
July 20, 2022

Kona Hospital Foundation

**Statements of Financial Position
As of December 31, 2021 and 2020**

	<u>2021</u>	<u>2020</u>
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents (Note 4)	\$ 1,330,115	\$ 543,460
Auction Inventory (Note 2)	2,150	2,150
Investments in Marketable Securities (Notes 5 and 10)	956,161	954,944
Unconditional Promises to Give (Note 11)	<u>15,623</u>	<u>-</u>
Total Current Assets	2,304,049	1,500,554
OFFICE EQUIPMENT (Note 2)		
Office Equipment	2,200	2,200
Accumulated Depreciation	<u>(2,200)</u>	<u>(2,200)</u>
Net Office Equipment	-	-
OTHER ASSETS		
Beneficial Interest in Perpetual Trust (Note 2)	<u>1,898,000</u>	<u>1,719,000</u>
TOTAL ASSETS	<u>\$ 4,202,049</u>	<u>\$ 3,219,554</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 1,963	\$ 3,138
Unconditional Promises Made (Note 2)	<u>198,668</u>	<u>198,668</u>
Total Current Liabilities	<u>200,631</u>	<u>201,806</u>
TOTAL LIABILITIES	200,631	201,806
NET ASSETS (Note 2)		
Net Assets Without Donor Restrictions	1,648,972	1,027,877
Net Assets With Donor Restrictions	<u>2,352,446</u>	<u>1,989,871</u>
Total Net Assets	<u>4,001,418</u>	<u>3,017,748</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,202,049</u>	<u>\$ 3,219,554</u>

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

Kona Hospital Foundation

Statements of Activities and Changes in Net Assets
For the Years Ended December 31, 2021 and 2020

	Net Assets Without Donor Restriction	Net Assets With Donor Restriction	Total 2021	Net Assets Without Donor Restriction	Net Assets With Donor Restriction	Total 2020
PUBLIC SUPPORT AND REVENUE						
Contributions (Note 2)	\$ 504,002	\$ 200,000	\$ 704,002	\$ 217,774	\$ 4,058	\$ 221,832
Unrealized Gain on Valuation of Perpetual Trust	-	179,000	179,000	-	139,000	139,000
Investment Gain	80,495	-	80,495	103,879	-	103,879
Interest Income and Dividends	97,516	-	97,516	27,882	-	27,882
Alberta E. Brown Trust Income	45,143	-	45,143	44,044	-	44,044
Net Assets Released from Restrictions	16,425	(16,425)	-	300	(300)	-
Total Public Support and Revenue	743,581	362,575	1,106,156	393,879	142,758	536,637
EXPENSES						
Program Services	54,687	-	54,687	216,339	-	216,339
Support Services	52,846	-	52,846	73,141	-	73,141
Fundraising	14,953	-	14,953	25,522	-	25,522
Total Expenses	122,486	-	122,486	315,002	-	315,002
CHANGES IN NET ASSETS	621,095	362,575	983,670	78,877	142,758	221,635
Net Assets, Beginning of year	1,027,877	1,989,871	3,017,748	949,000	1,847,113	2,796,113
Net Assets, End of year	<u>\$ 1,648,972</u>	<u>\$ 2,352,446</u>	<u>\$ 4,001,418</u>	<u>\$ 1,027,877</u>	<u>\$ 1,989,871</u>	<u>\$ 3,017,748</u>

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

Kona Hospital Foundation

**Statements of Functional Expenses
For the Years Ended December 31, 2021 and 2020**

	Supporting Services				Supporting Services			
	Program Services	Management and General	Fundraising	Total 2021	Program Services	Management and General	Fundraising	Total 2020
Donations to Kona Hospital (Note 2)	\$ 38,329	\$ -	\$ -	\$ 38,329	\$ 209,601	\$ -	\$ -	\$ 209,601
Salaries and Wages	3,422	20,534	10,266	34,222	6,738	40,434	20,216	67,388
Professional Fees	-	15,507	805	16,312	-	16,944	880	17,824
Merchant Service Fees	-	11,533	2,361	13,894	-	10,728	2,196	12,924
Other Donations	12,936	-	-	12,936	-	-	-	-
Printing and Reproduction	-	1,796	771	2,567	-	1,442	619	2,061
Office Supplies	-	2,022	-	2,022	-	55	-	55
Admin Expenses	-	664	750	1,414	-	1,268	1,432	2,700
Insurance	-	790	-	790	-	770	-	770
Meals and Entertainment	-	-	-	-	-	1,500	-	1,500
Event Cost Expenses (Note 2)	-	-	-	-	-	-	179	179
Total Expenses Before Depreciation	54,687	52,846	14,953	122,486	216,339	73,141	25,522	315,002
Depreciation Expense	-	-	-	-	-	-	-	-
Total Expenses	\$ 54,687	\$ 52,846	\$ 14,953	\$ 122,486	\$ 216,339	\$ 73,141	\$ 25,522	\$ 315,002

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

Kona Hospital Foundation

Statements of Cash Flows
For the Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Support and Revenues	\$ 733,522	\$ 265,876
Interest and Dividends Received	97,516	27,882
Cash Paid to Employees and Vendors	<u>(123,661)</u>	<u>(314,475)</u>
Net Cash Provided/(Used) by Operating Activities (Note 8)	707,377	(20,717)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net Proceeds/Purchase of Investments and Reinvestment of Earnings	<u>79,278</u>	<u>(182,440)</u>
Net Cash Provided/(Used) by Investing Activities	79,278	(182,440)
CASH FLOWS FROM FINANCING ACTIVITIES	-	-
Net Increase (Decrease) in cash and cash equivalents	<u>786,655</u>	<u>(203,157)</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>543,460</u>	<u>746,617</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,330,115</u>	<u>\$ 543,460</u>

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

Kona Hospital Foundation
Notes to the Financial Statements
December 31, 2021 and 2020

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 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 refundable advance.

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. Depreciation is calculated by the straight-line method over the estimated useful lives of the equipment. There was no depreciation expense for the years ended December 31, 2021 and 2020.

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 \$38,329 and \$209,601 for the years ended December 31, 2021 and 2020, respectively.

Advertising Costs: Advertising costs are expensed as incurred. The Foundation incurred advertising costs of \$-0- in the years ended December 31, 2021 and 2020. 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, 2021 and 2020

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 Statements 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 \$-0- for both years ended December 31, 2021 and 2020.

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 2021 and 2020, the Foundation disbursed \$38,329 and \$209,601, respectively. The outstanding amount remaining for the Cancer Center project was \$200,746 as of December 31, 2021 and 2020.

The Organization has analyzed the provisions of FASB ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, and has concluded that no changes are necessary to conform to the standard.

Net Assets: Net assets, revenue, and support are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

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. Net assets without donor restrictions denoted as property and equipment represent equity in such property and equipment.

Kona Hospital Foundation
Notes to the Financial Statements
December 31, 2021 and 2020

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

Net assets with donor restriction represent restricted grants and funds received from foundations and donors for which the restriction had not yet been fulfilled. 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:

	2021	2020
Cancer Center	\$ 200,746	\$ 200,746
Chapel Fund	53,700	70,125
Beneficiary Interest in Alberta E. Brown Trust	1,898,000	1,719,000
COVID Emergency Staffing	200,000	-
Total	\$ 2,352,446	\$ 1,989,871

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 through 2021 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 distribution earnings received from the Trust amounted to \$45,143 and \$44,044 in 2021 and 2020, respectively.

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:

	2021	2020
Balance Beginning of Year	\$ 1,719,000	\$ 1,580,000
Investment Earnings	45,143	44,044
Earnings transferred to Net Assets without Donor Restrictions	(45,143)	(44,044)
Unrealized Gain on Valuation of Perpetual Trust	179,000	139,000
Balance End of Year	\$ 1,898,000	\$ 1,719,000

Kona Hospital Foundation
Notes to the Financial Statements
December 31, 2021 and 2020

Note 3. 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 after December 15, 2021, but permits early adoption, and mandates a modified retrospective transition method. The provisions are effective for the Foundation's fiscal year ending December 31, 2022. Management is currently evaluating the impact that the adoption of these provisions will have on the financial statements.

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 985): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, effective for annual periods beginning after June 15, 2021 with early application permitted. The provisions are effective for the Foundation's fiscal year ending December 31, 2022. Management is currently evaluating the impact that the adoption of these provisions will have on the financial statements.

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, 2021 and 2020.

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:

	<u>2021</u>	<u>2020</u>
Cash and Cash Equivalents	\$ 1,330,115	\$ 543,460
Investment in Marketable Securities	<u>956,161</u>	<u>954,944</u>
Financial Assets at December 31, 2021	2,286,276	1,498,404
Less those unavailable to general expenditures within one year due to:		
Restricted by donor with purpose restriction	<u>454,446</u>	<u>270,871</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,831,830</u>	<u>\$ 1,227,533</u>

Kona Hospital Foundation
Notes to the Financial Statements
December 31, 2021 and 2020

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 2018. 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/(USED) BY OPERATING ACTIVITIES

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 983,670	\$ 221,635
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Gain on Investment	(80,495)	(103,879)
Unrealized Gain on Valuation of Perpetual Trust	(179,000)	(139,000)
Change in Accounts Receivable	(15,623)	-
Change in Auction Inventory	-	299
Change in Accounts Payable	(1,175)	228
Net Cash Provided/(Used) by Operating Activities	<u>\$ 707,377</u>	<u>\$ (20,717)</u>

Note 9. SUBSEQUENT EVENTS

Management has evaluated subsequent events through July 20, 2022, the date the financial statements were available to be issued. There are no recognized subsequent events, events that that provide additional evidence about conditions that existed at the statement of net position date, or non-recognized subsequent events, or events that provide evidence about conditions that did not exist at the statement of net position date, which are necessary to disclose to keep the financial statements from being misleading.

Kona Hospital Foundation
Notes to the Financial Statements
December 31, 2021 and 2020

Note 9. SUBSEQUENT EVENTS (continued)

Subsequent to year end, the COVID-19 pandemic was still ongoing. The United States economy was negatively affected and the financial markets have experienced significant losses due to the outbreak. At the time these financial statements were available to be issued, the situation remained very volatile and the full effect of the pandemic on the operations of the Foundation 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 at December 31:

	2021			2020		
	Cost	Cumulative Unrealized Gain(Losses)	Quoted Prices: Level 1	Cost	Cumulative Unrealized Gain(Losses)	Quoted Prices: Level 1
Assets:						
Exchange Trade Funds and Closed End Funds	\$ 355,689	\$ 232,846	\$ 588,535	\$ 379,129	\$ 198,627	\$ 577,756
Mutual Funds - Equity	102,442	22,933	125,375	224,541	8,298	232,839
Mutual Funds - Fixed Income	92,772	984	93,756	90,402	4,021	94,423
Government Securities	148,302	193	148,495	49,200	726	49,926
Total	\$ 699,205	\$ 256,956	\$ 956,161	\$ 743,272	\$ 211,672	\$ 954,944

Realized gains on the sale of investments amounted to \$31,416 and \$7,357 for the years ended December 31, 2021 and 2020. Cumulative unrealized gains amounted to \$256,956 and \$211,672 for the years ended December 31, 2021 and 2020.

Kona Hospital Foundation
Notes to the Financial Statements
December 31, 2021 and 2020

Note 11. UNCONDITIONAL PROMISE TO GIVE

During the year of 2020, the Foundation received a notice that the Foundation was designated as a partial residual beneficiary of a revocable trust and the assets held by a third party. The designation of Kona Hospital Foundation as a partial residual beneficiary of the revocable trust became irrevocable as of the settlor's death. During 2021, due to the settlor's death, the Foundation received \$68,941 with a final amount of \$15,623 received in March 2022.