

KONA HOSPITAL FOUNDATION
(A Hawai'i Nonprofit Corporation)

REVIEWED FINANCIAL STATEMENTS
(With Independent Accountants' Review Report)

FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

KONA HOSPITAL FOUNDATION

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INDEPENDENT ACCOUNTANTS' REPORT

To the Board of Trustees and Management
Kona Hospital Foundation
Kealahou, Hawai'i 96750

We have reviewed the accompanying financial statements of Kona Hospital Foundation (a nonprofit corporation), which comprise the statements of financial position as of December 31, 2023 and 2022, 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.

Accountants' 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.

We are required to be independent of Kona Hospital Foundation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our review.

Accountants' 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 & Mgmt Group

Hilo, Hawai'i
May 10, 2024

Kona Hospital Foundation
Statements of Financial Position
As of December 31, 2023 and 2022

ASSETS	<u>2023</u>	<u>2022</u>
CURRENT ASSETS		
Cash and Cash Equivalents (Notes 2 and 5)	\$ 563,736	\$ 450,417
Prepaid Event Rent	<u>6,579</u>	<u>-</u>
Total Current Assets	570,315	450,417
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		
Investments in Marketable Securities (Notes 5 and 10)	2,625,707	1,570,665
Beneficial Interest in Perpetual Trust (Note 3)	<u>1,650,000</u>	<u>1,740,000</u>
Total Other Assets	<u>4,275,707</u>	<u>3,310,665</u>
TOTAL ASSETS	<u><u>\$ 4,846,022</u></u>	<u><u>\$ 3,761,082</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 2,801	\$ 2,836
Unconditional Promises Made (Note 2)	<u>198,668</u>	<u>198,668</u>
Total Current Liabilities	<u>201,469</u>	<u>201,504</u>
TOTAL LIABILITIES	201,469	201,504
NET ASSETS (Note 2)		
Net Assets Without Donor Restrictions	2,696,755	1,563,440
Net Assets With Donor Restrictions	<u>1,947,798</u>	<u>1,996,138</u>
Total Net Assets	<u>4,644,553</u>	<u>3,559,578</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 4,846,022</u></u>	<u><u>\$ 3,761,082</u></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, 2023 and 2022

	Net Assets Without Donor	Net Assets With Donor Restriction	Totals 2023	Net Assets Without Donor	Net Assets With Donor Restriction	Totals 2022
PUBLIC SUPPORT AND REVENUE						
Contributions (Note 2)	\$ 1,092,646	\$ 95,915	\$ 1,188,561	\$ 212,250	\$ -	\$ 212,250
Unrealized Gain (Loss) on Investment	104,421	-	104,421	(183,046)	-	(183,046)
Interest Income and Dividends	84,369	-	84,369	48,429	-	48,429
Contribution from Perpetual Trust (Note 3)	48,713	-	48,713	47,472	-	47,472
Distribution from Trust	29,553	-	29,553	-	-	-
Realized Gain on Investments (Note 10)	21,958	-	21,958	28,761	-	28,761
Fundraising Income	18,765	-	18,765	-	1,692	1,692
In Kind Revenue (Note 9)	2,719	-	2,719	-	-	-
Change in Valuation of Perpetual Trust (Note 3)	-	(90,000)	(90,000)	-	(158,000)	(158,000)
Net Assets Released from Restrictions	54,255	(54,255)	-	200,000	(200,000)	-
Total Public Support and Revenue	1,457,399	(48,340)	1,409,059	353,866	(356,308)	(2,442)
EXPENSES						
Program Services	230,047	-	230,047	369,691	-	369,691
Management and General	66,925	-	66,925	51,559	-	51,559
Fundraising	27,112	-	27,112	18,148	-	18,148
Total Expenses	324,084	-	324,084	439,398	-	439,398
CHANGES IN NET ASSETS	\$ 1,133,315	\$ (48,340)	\$ 1,084,975	\$ (85,532)	\$ (356,308)	\$ (441,840)
Net Assets, Beginning of year	1,563,440	1,996,138	3,559,578	1,648,972	2,352,446	4,001,418
Net Assets, End of year	<u>\$ 2,696,755</u>	<u>\$ 1,947,798</u>	<u>\$ 4,644,553</u>	<u>\$ 1,563,440</u>	<u>\$ 1,996,138</u>	<u>\$ 3,559,578</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, 2023 and 2022

	Supporting Services				Supporting Services			
	Program Services	Management and General	Fundraising	Totals 2023	Program Services	Management and General	Fundraising	Totals 2022
Donations to Kona Hospital (Note 2)	\$ 187,910	\$ -	\$ -	\$ 187,910	\$ 346,887	\$ -	\$ -	\$ 346,887
Salaries and Wages	20,545	49,306	12,327	82,178	3,539	21,237	10,617	35,393
Merchant Service Fees	12,042	5,017	3,011	20,070	-	13,353	2,733	16,086
Professional Fees	7,285	10,018	911	18,214	-	12,773	663	13,436
Event Cost Expenses	-	-	6,608	6,608	-	-	1,352	1,352
In Kind Expenses (Note 9)	-	-	2,719	2,719	-	-	-	-
Printing and Reproduction	1,042	782	782	2,606	-	1,475	633	2,108
Administration Expenses	1,060	954	106	2,120	-	1,903	2,150	4,053
General Excise Taxes (Note 2)	-	701	-	701	-	-	-	-
Meals and Entertainment	-	-	632	632	-	-	-	-
Office Supplies	163	147	16	326	-	-	-	-
Other Donations	-	-	-	-	19,265	-	-	19,265
Insurance	-	-	-	-	-	818	-	818
Total Expenses	<u>\$ 230,047</u>	<u>\$ 66,925</u>	<u>\$ 27,112</u>	<u>\$ 324,084</u>	<u>\$ 369,691</u>	<u>\$ 51,559</u>	<u>\$ 18,148</u>	<u>\$ 439,398</u>

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

Kona Hospital Foundation

Statements of Cash Flows

For the Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Contributions	\$ 1,266,827	\$ 275,345
Cash Received from Investments	106,327	77,190
Cash from Fundraising Events	18,765	1,692
Cash Paid to Employees and Vendors	<u>(327,979)</u>	<u>(436,375)</u>
Net Cash Provided (Used) by Operating Activities (Note 8)	1,063,940	(82,148)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net (Purchase) Proceeds of Investments and Reinvestment of Earning	<u>(950,621)</u>	<u>(797,550)</u>
Net Cash Used by Investing Activities	(950,621)	(797,550)
CASH FLOWS FROM FINANCING ACTIVITIES	-	-
Net Increase (Decrease) in Cash and Cash Equivalents	<u>113,319</u>	<u>(879,698)</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>450,417</u>	<u>1,330,115</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 563,736</u></u>	<u><u>\$ 450,417</u></u>

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

Kona Hospital Foundation
Notes to the Financial Statements
December 31, 2023 and 2022

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 Hawai'i for the purpose of providing funding for improvements and equipment at the Kona Community Hospital (Hospital), located in Kealahou on the Big Island of Hawai'i. The Foundation is a nonprofit corporation 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.

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, 2023 and 2022.

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.

Accounts Receivable: In June 2016, the FASB issued ASC 326 Financial Instruments - Credit Losses (Topic 326): *Measurements of Credit Losses on Financial Instruments* (ASC 326), which replaces the existing incurred loss model with a current expected credit loss (CECL) model that requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The Foundation adopted ASC 326 on January 1, 2023, which did not have an impact on its financial statements or accounting policies. The Foundation now utilizes a forward-looking current expected credit loss model for trade accounts receivable.

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, 2023 and 2022.

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 \$187,910 and \$346,887 for the years ended December 31, 2023 and 2022, respectively.

Advertising Costs: Advertising costs are expensed as incurred. The Foundation incurred advertising costs of \$434 and \$63 in the years ended December 31, 2023 and 2022, respectively.

Kona Hospital Foundation
Notes to the Financial Statements
December 31, 2023 and 2022

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases: The Foundation uses a risk-free discount rate consistent with the period of the lease term. Lease payments with a term of 12 months or less are expensed on a straight-line basis over the term of the lease with no lease asset or liability recognized.

Revenue Recognition: Contributions received are recorded as contributions with or without donor restrictions depending on the existence and/or nature of any donor restrictions. Unconditional promises to donate due in the next year are reflected as current promises to give and are recorded at their net realizable value. Grants and other contributions of cash are reported as with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. In accordance with FASB's ASC Topic 606, *Revenue from Contracts with Customers*, performance obligations related to program services and grant revenue are recognized as the expenses occurred or the services have been provided throughout the year. Other revenues and donations do not have a specific performance obligation and are generally earned when received.

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: Hawai'i general excise tax is imposed on fundraising income from sales activities at four percent, which amounted to \$701 and \$-0- for the years ended December 31, 2023 and 2022.

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. The outstanding amount remaining for the Cancer Center project was \$198,668 as of December 31, 2023 and 2022.

Unconditional Promises to Give: Unconditional promises to give are recorded as receivables and revenue when received. Unconditional promises to give that are expected to be collected within one year are recorded as contributions receivable at net realizable value.

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.

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.

Kona Hospital Foundation
Notes to the Financial Statements
December 31, 2023 and 2022

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

The following are the net assets with donor restrictions as of December 31:

	<u>2023</u>	<u>2022</u>
Beneficial Interest in Perpetual Trust (Note 3)	\$ 1,650,000	\$ 1,740,000
Cancer Center	202,438	202,438
Chapel Fund	53,700	53,700
Ultrasound Machine	21,660	-
Surgical 12" C-CRM	<u>20,000</u>	<u>-</u>
Total	<u>\$ 1,947,798</u>	<u>\$ 1,996,138</u>

Note 3. BENEFICIAL INTEREST IN PERPETUAL TRUST

Net assets with donor restrictions are also comprised of a beneficial 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 corporation. This trust is irrevocable and each year the Foundation shall receive distributions from the trust. A third party has dominion and control over the administration, investment and reinvestment of the trust assets, as well as determining additional amounts to be distributed.

Management has determined that the Foundation's beneficiary interest in the Trust is measurable pursuant to Financial Accounting Standards Board ASC 958-30-30-14, and, as a result, can be recorded as a long-term asset at its estimated net present value. Therefore, management has recorded the Foundation's unconditional right to receive specified cash flows as noted in the paragraph above. The Foundation calculated the net present value based on future distributions using a five-year moving average and discounted at a rate using a five-year average of the 30-year Treasury bill as follows as of December 31:

	<u>2023</u>	<u>2022</u>
Five year average distribution	\$ 45,938	\$ 44,407
Five year average 30-year Treasury Bill Rate	2.79%	2.59%

The carrying value of the perpetual trust is valued under level 3 inputs in the fair value hierarchy discussed in Note 10. 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 as of December 31:

	<u>2023</u>	<u>2022</u>
Balance, Beginning of Year	\$ 1,740,000	\$ 1,898,000
Unrealized Loss on Valuation of Perpetual Trust	<u>(90,000)</u>	<u>(158,000)</u>
Balance, End of Year	<u>\$ 1,650,000</u>	<u>\$ 1,740,000</u>

Kona Hospital Foundation
Notes to the Financial Statements
December 31, 2023 and 2022

Note 4. COMMITMENTS

During the year 2023, the Foundation received requests from Kona Community Hospital for funds for various projects and equipment. The Board of Trustees review the requests and vote for approval. The funds are sent when an invoice is received from Kona Community Hospital for reimbursement. As of December 31, 2023 the Board has approved \$361,278 for future projects and equipment which will come from funds either with donor restrictions or without donor restrictions.

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:

	2023	2022
Cash and Cash Equivalents	\$ 563,736	\$ 450,417
Investments in Marketable Securities	2,625,707	1,570,665
Financial Assets at December 31,	3,189,443	2,021,082
Less those unavailable to general expenditures within one year due to:		
Restricted by donor with purpose restriction	297,798	256,138
Financial assets available to meet cash needs for general expenditures within one year	\$ 2,891,645	\$ 1,764,944

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 2020. 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.

Kona Hospital Foundation
Notes to the Financial Statements
December 31, 2023 and 2022

Note 8. RECONCILIATION OF CHANGES IN NET ASSETS WITH NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES

	2023	2022
Changes in Net Assets	\$ 1,084,975	\$ (441,840)
Unrealized (Gain) Loss on Investments	(104,421)	183,046
Change in Valuation of Perpetual Trust (Note 3)	90,000	158,000
Adjustments to reconcile:		
Change in Accounts Receivable	-	15,623
Change in Prepaid Event Rent	(6,579)	-
Change in Auction Inventory	-	2,150
Change in Accounts Payable	(35)	873
Net Cash Provided (Used) by Operating Activities	\$ 1,063,940	\$ (82,148)

Note 9. DONATED SERVICES, GOODS AND FACILITIES

The Foundation follows Accounting Standards Update (ASU) No. 2020-07, Not-for-Profit Entities (Topic 958) *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. 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 did not receive any donated services during the years ended December 31, 2023 and 2022.

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. During 2023 and 2022, there were \$2,719 and \$0- donated items received for fundraising purposes.

Note 10. INVESTMENTS IN MARKETABLE SECURITIES

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. See Note 3.

Kona Hospital Foundation
Notes to the Financial Statements
December 31, 2023 and 2022

Note 10. INVESTMENTS IN MARKETABLE SECURITIES (continued)

The Foundation's Investments are measured at fair value on a recurring basis and valued using Level 1. There are no other assets except for beneficial interest in perpetual trust discussed at Note 3 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:

Assets:	2023			2022		
	Cost	Cumulative Unrealized Gain	Quoted Prices: Level 1	Cost	Cumulative Unrealized Gain(Losses)	Quoted Prices: Level 1
Exchange Trade Funds and Closed End Funds	\$ 833,386	\$ 209,493	\$ 1,042,879	\$ 615,143	\$ 92,982	\$ 708,125
Mutual Funds - Equity	749,552	6,348	755,900	513,393	(3,670)	509,723
Government Securities	620,578	16,222	636,800	268,469	(16,570)	251,899
Certificate of Deposits	189,580	548	190,128	99,750	1,168	100,918
Total	<u>\$ 2,393,096</u>	<u>\$ 232,611</u>	<u>\$ 2,625,707</u>	<u>\$ 1,496,755</u>	<u>\$ 73,910</u>	<u>\$ 1,570,665</u>

Realized gains on the sale of investments amounted to \$21,958 and \$28,761 for the years ended December 31, 2023 and 2022. Cumulative unrealized gains amounted to \$232,611 and \$73,910 for the years ended December 31, 2023 and 2022.

Note 11. SUBSEQUENT EVENTS

Management has evaluated subsequent events through May 10, 2024, the date the financial statements were available to be issued. There are no 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.