BOBBY BENSON CENTER

Financial Statements

June 30, 2018
(with comparative totals for 2017)

BOBBY BENSON CENTER

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Wikoff Combs & Co., LLC
Certified Public Accountants

Independent Auditors' Report

To the Board of Directors
Bobby Benson Center

We have audited the accompanying financial statements of Bobby Benson Center (a nonprofit organization), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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.

Auditors' Responsibility

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bobby Benson Center as of June 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Bobby Benson Center's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 15, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Nikoff Combs & Co., LLC

Honolulu, Hawaii
October 29, 2018

BOBBY BENSON CENTER

Statement of Financial Position

June 30, 2018
(with comparative totals for 2017)

ASSETS

	2018	2017
Current assets		
Cash and cash equivalents	$ 950,207	$ 721,737
Investments	440,487	409,341
Receivables:		
Government contracts, net of allowance of $31,701 in 2018 and $18,099 in 2017	523,172	360,634
Program fees	3,862	11,027
Total receivables	527,034	371,661
Prepaid expenses	-	12,088
Total current assets	1,917,728	1,514,827
Property and equipment		
Building and leasehold improvements	3,745,425	3,732,725
Furniture and equipment	337,250	311,493
Vehicles	71,583	74,717
Total property and equipment	4,154,258	4,118,935
Less accumulated depreciation and amortization	(2,572,809)	(2,464,740)
Net property and equipment	1,581,449	1,654,195
Total assets	$ 3,499,177	$ 3,169,022

LIABILITIES AND NET ASSETS

	2018	2017
Current liabilities		
Accounts payable	$ 32,324	$ 48,984
Accrued liabilities	147,377	118,493
Total current liabilities	179,701	167,477
Net assets		
Unrestricted:		
Undesignated	1,726,080	1,331,130
Invested in property and equipment	1,581,449	1,654,195
Total unrestricted	3,307,529	2,985,325
Temporarily restricted	11,947	16,220
Total net assets	3,319,476	3,001,545
Total liabilities and net assets	$ 3,499,177	$ 3,169,022

See accompanying notes to financial statements.

BOBBY BENSON CENTER

Statement of Activities

For the Year Ended June 30, 2018
(with comparative totals for 2017)

	Unrestricted	Temporarily Restricted	Total	2017
Revenue and support				
Government contracts and grants	$ 3,264,595	$ -	$ 3,264,595	$ 2,520,087
Contributions	36,216	12,500	48,716	100,101
Program fees	15,052	-	15,052	79,060
Net unrealized/realized gains (losses) on investments	31,009	-	31,009	21,027
Dividends and interest	8,781	-	8,781	11,421
Special events, net of direct costs of $3,123 in 2018	4,203	-	4,203	7,666
Other income	1,690	-	1,690	8,998
Net assets released from restriction	16,773	(16,773)	-	-
Total revenue and support	3,378,319	(4,273)	3,374,046	2,748,360
Expenses				
Program services	2,395,527	-	2,395,527	2,164,099
Supporting services:				
Management and general	616,973	-	616,973	566,815
Fundraising	43,615	-	43,615	35,883
Total support services	660,588	-	660,588	602,698
Total expenses	3,056,115	-	3,056,115	2,766,797
Changes in net assets	322,204	(4,273)	317,931	(18,437)
Net assets at beginning of year	2,985,325	16,220	3,001,545	3,019,982
Net assets at end of year	$ 3,307,529	$ 11,947	$ 3,319,476	$ 3,001,545

See accompanying notes to financial statements.

BOBBY BENSON CENTER

Statement of Functional Expenses

For the Year Ended June 30, 2018
(with comparative totals for 2017)

	2018					2017
		Supporting Services				
	Program Services	Management and General	Fund-raising	Total	Total Expenses	Total
Salaries and wages	$ 1,452,165	$ 360,284	$ 25,735	$ 386,019	$ 1,838,184	$ 1,641,589
Payroll taxes and benefits	352,949	87,569	6,254	93,823	446,772	384,455
Total payroll costs	1,805,114	447,853	31,989	479,842	2,284,956	2,026,044
Occupancy	141,584	35,127	2,510	37,637	179,221	149,681
Program activities	138,891	-	-	-	138,891	130,617
Professional and contract services	71,079	47,522	5,359	52,881	123,960	122,545
Supplies	47,268	19,224	662	19,886	67,154	56,920
Insurance	37,888	9,400	671	10,071	47,959	44,230
Travel	30,024	7,449	532	7,981	38,005	39,399
Training, meetings and credentialing	18,967	3,390	75	3,465	22,432	35,933
Other	4,011	22,024	33	22,057	26,068	35,460
Total expenses before depreciation and amortization	2,294,826	591,989	41,831	633,820	2,928,646	2,640,829
Depreciation and amortization	100,701	24,984	1,784	26,768	127,469	125,968
Total expenses	$ 2,395,527	$ 616,973	$ 43,615	$ 660,588	$ 3,056,115	$ 2,766,797

See accompanying notes to financial statements.

BOBBY BENSON CENTER

Statement of Cash Flows

For the Year Ended June 30, 2018
(with comparative totals for 2017)

	2018	2017
Cash flows from operating activities		
Changes in net assets	$ 317,931	$ (18,437)
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Net unrealized/realized (gain) loss on investments	(31,009)	(21,027)
Bad debt expense	13,602	18,099
Depreciation and amortization	127,469	125,968
(Gain) loss on disposition of property and equipment	339	(8,768)
(Increase) decrease in assets:		
Accounts receivable	(168,975)	76,887
Prepaid expenses	12,088	4,600
Increase (decrease) in liabilities:		
Accounts payable	(16,660)	10,555
Accrued liabilities	28,884	(8,339)
Total adjustments	(34,262)	197,975
Net cash provided by operating activities	283,669	179,538
Cash flows from investing activities		
Proceeds from sale of investments	1,245	433,140
Purchase of investments	(1,382)	(443,648)
Proceeds from sale of property and equipment	895	8,768
Purchase of property and equipment	(55,957)	(56,127)
Net cash used in investing activities	(55,199)	(57,867)
Net increase in cash and cash equivalents	228,470	121,671
Cash and cash equivalents, beginning of year	721,737	600,066
Cash and cash equivalents, end of year	$ 950,207	$ 721,737

See accompanying notes to the financial statements.

Organization and Operations

Bobby Benson Center (Center) is a 24-hour residential facility located in Kahuku, Hawaii, that has been treating adolescents for more than 25 years. The Center's mission is to free adolescents from chemical dependency and co-occurring disorders through residential treatment services and employs best practices for adolescents and their families. Revenue and support is derived principally from government grants and contracts, and contributions.

As a nonprofit corporation described in Section 501(c)(3) of the Internal Revenue Code (IRC), the Center is exempt from federal and State income taxes on related income pursuant to IRC Section 501(a) and the related sections of the Hawaii Revised Statutes. The Center has been determined not to be a private foundation as defined in IRC Section 509(a).

1. Summary of Significant Accounting Policies

Basis of Accounting

The Center prepares the financial statements in accordance with generally accepted accounting principles promulgated in the United States of America for not-for-profit organizations. The significant accounting and reporting policies used by the Center are described below to enhance the usefulness and understandability of the financial statements.

Cash and Cash Equivalents

The Center considers all unrestricted highly liquid investments with an original maturity of three months or less, when purchased, to be cash equivalents.

Investments Valuation and Income Recognition

Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Investment transactions are recognized on a trade date basis.

Interest and dividend income and gains and losses on investments are reported in the financial statements as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law.

1. Summary of Significant Accounting Policies, continued

Receivables

Receivables are carried at the original invoice amount less an estimate made for allowance for doubtful receivables based on a review of all outstanding accounts. Management determines the allowance for doubtful accounts by identifying troubled accounts, considering the debtor's financial condition and current economic conditions, and using historical experience applied to an aging of the receivables. Receivables are expensed when deemed uncollectible. Recoveries of receivables previously expensed are recorded when received.

Property and Equipment

Property and equipment of $1,000 or more with an estimated useful life of at least one year are capitalized and recorded at cost. Donated assets are recorded at their estimated fair value at the date of donation. Depreciation is calculated using the straight-line method based on the respective estimated useful lives, ranging from 5 to 15 years for furniture and equipment, 5 years for vehicles, and 10 to 39 years for buildings. Leasehold improvements are amortized utilizing the straight-line method over the lesser of the lease term or the estimated useful lives of the assets.

Expenditures for maintenance, repairs and renewals of minor items are charged to expenses as incurred. Major renewals and improvements are capitalized. Property and equipment retired or otherwise disposed of is removed from the appropriate asset and related accumulated depreciation accounts. Gains and losses on the sale of the assets are reflected in the current operations.

Property and equipment are reviewed for impairment whenever events or changes in business circumstances indicate that the carrying value of the assets may not be recoverable. In the event that facts and circumstances indicate that the cost of any long-lived assets may be impaired, an evaluation of recoverability would be performed.

Net Assets

The Center's net assets and changes therein are classified and reported as follows:

1. Summary of Significant Accounting Policies, continued

Unrestricted net assets are not restricted by donors, or the donor-imposed restrictions have expired. The only limits on unrestricted net assets are broad limits resulting from the nature of Center and purposes specified in its articles of incorporation or bylaws and any limits resulting from contractual agreements.

Temporarily restricted net assets are comprised of gifts; including pledges and trusts, as well as income and gains that can be expended, for which restrictions have not yet been met. Such restrictions include purpose restrictions wherein donors have specified the purpose for which the net assets are to be spent or time restrictions are imposed or implied by the nature of the gift (pledges to be paid in the future and unappropriated earnings of the permanent endowments). When a restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities as net assets released from restrictions.

Permanently restricted net assets represent the historical dollar amounts of gifts, including pledges and trusts, subject to donor-imposed stipulations to be invested in perpetuity, and only the income may be available for program operations. The Center has no permanently restricted net assets.

Recognition of Government Grants and Contracts

Government grants and contracts are received from federal and State governments. Revenues on cost reimbursement contracts are recognized when allowable and reimbursable expenses are incurred, and upon meeting the legal and contractual requirements of the funding source. Revenues on fee for service contracts are recognized when the services required by the contractual agreements are satisfactorily performed. These revenues are generally considered exchange transactions, and are thereby recorded as revenues of the unrestricted net asset class. Funding received in advance of the applicable revenue recognition criteria is recorded as contract advance payments in the financial statements.

Contributions

Contributions are recorded as support when an unconditional promise to give has been made. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the donor intent. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying financial statements as net assets released from restrictions.

1. Summary of Significant Accounting Policies, continued

Donated Property, Equipment and Services

Donations of property and equipment are recorded as contributions at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset for a specific purpose.

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets, or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased by the Center.

Leases

Leases that transfer substantially all of the risks and benefits of ownership are considered capital leases. Other leases are classified as operating leases. Capital leases are amortized using the straight-line method over the lesser of their lease term or their estimated useful lives.

Functional Classification of Expenses

The cost of providing various programs and supporting services has been summarized on a functional basis in the financial statements. Accordingly, certain costs have been allocated among program and supporting services benefited, based on the direct cost incurred and management's estimate of resources consumed by the functions.

Use of Estimates

Preparing financial statements according to generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts of assets and liabilities reported, the disclosure of contingent assets and liabilities, and the revenues and expenses reported during the stated period. Actual results could differ from management's estimates.

Comparative Financial Information

The financial statements include certain prior-year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles in the United States of America. Accordingly, such information should be read in conjunction with the Center's financial statements for the year ended June 30, 2017, from which the summarized information was derived.

1. Summary of Significant Accounting Policies, continued

Subsequent Events

Management has evaluated subsequent events through the date of the independent auditors' report, which is the date the financial statements were available to be issued.

2. Fair Value Measurements and Investments

The Center invests in exchange-traded fund securities which are valued at the closing price reported on the active stock exchanges. These investments are carried at fair value and are considered Level 1 assets. The investments' fair value on a recurring basis at June 30, 2018, were as follows:

Exchange-traded funds:	
Large blend	$ 323,893
Corporate bond	116,594
Total exchange-traded funds	$ 440,487

The Center invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying financial statements.

3. Line-of-Credit

The Center has a bank line-of-credit available with a maximum amount of $500,000 limited to 75% of eligible accounts receivable until May 10, 2019. The line-of-credit is secured by the Center's assets and accrues interest on borrowed balances at the bank's prime rate plus 2%. The bank's agreement includes various covenants regarding additional debt, providing loans or advances to any person or entity, or guaranteeing third party debt. At June 30, 2018, the entire line-of-credit was available.

4. Lease Commitments

The Center leases the land for its operations under a conditional operating lease expiring in May 2049, for $189 per month (adjusted every five years based on the Consumer Price Index) plus related costs. In addition, the Center has an operating lease for office equipment, which requires minimum monthly payments of $1,394 through June 2022. Rental expense for the year was approximately $22,000.

Approximate minimum future payments under the operating leases as of June 30, 2018, are as follows:

Year Ending June 30	Amount
2019	$ 20,000
2020	20,000
2021	20,000
2022	20,000
2023	3,000
Thereafter	59,000
Total	$ 142,000

The Center also leases a solar energy system for 20 years effective August 1, 2012. According to the agreement, the Center will pay 100% of the energy generated from the system less 15%. The rate charged is based on the electric utility company's prescribed rates and will not be below the initial contract rate. If the Center terminates the agreement, the Center must pay the "termination value", as described in the agreement, as liquidated damages. Since the future minimum base payments will be based on energy generated, an estimate of the future lease payments cannot be determined.

5. Temporarily Restricted Net Assets

At June 30, 2018, temporarily restricted net assets of approximately $12,000, were restricted for program expenditures.

6. Retirement Plan

The Center's 401(k) plan covers all employees who have met certain eligibility requirements. Employees may make contributions through payroll deductions and annual contributions by the Center are discretionary. During 2018, the Center contributed approximately $9,000, which is included in payroll taxes and other fringes in the accompanying financial statements.

7. Endowment Fund Held by Others

The Bobby Benson Center Endowment Fund was established to accept endowment gifts for the benefit of the Center. The Hawaii Community Foundation (HCF) administers and invests the funds and distributes a fixed percentage of earnings on an annual basis. HCF has the power to approve distributions to the Center which are generally unrestricted in use. At June 30, 2018, the value of the endowment fund was approximately $738,000. The Center received approximately $29,000 in unrestricted contributions from the Endowment Fund during 2018.

8. Economic Dependency/Financial Support

During 2018, the Center earned approximately 96% of its revenue and support from a government agency. A significant reduction in the level of this revenue and support, if this were to occur, could have an adverse effect on the Center's programs and activities. In addition, the government contract requires the fulfillment of certain conditions as set forth in the contractual agreements. Failure to fulfill the conditions could result in the return of funds to the government agency.

9. Related Party Transactions

During 2018, the Center incurred approximately $18,000 of medical services provided by a Board member.

10. Concentrations

The Center maintains its cash and cash equivalents balances in a financial institution and a financial services firm that are insured up to $250,000 by the Federal Deposit Insurance Corporation (FDIC) and the Securities Investor Protection Corporation (SIPC). At June 30, 2018, the uninsured bank balances totaled approximately $431,000. The Center has not experienced any losses in such accounts and believes it is not exposed to any significant credit risks for cash.