BOBBY BENSON CENTER

Financial Statements

June 30, 2019
(with comparative totals for 2018)

BOBBY BENSON CENTER

Table of Contents

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, 2019, 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, 2019, 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 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 29, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Wikoff Combs & Co., LLC

Honolulu, Hawaii
February 13, 2020

BOBBY BENSON CENTER

Statement of Financial Position

June 30, 2019
(with comparative totals as of June 30, 2018)

ASSETS

	2019	2018
Current assets		
Cash and cash equivalents	$ 914,193	$ 950,207
Investments	479,382	440,487
Receivables:		
Government contracts, net of allowance of $31,701 in 2018	750,308	523,172
Program fees	-	3,862
Total receivables	750,308	527,034
Total current assets	2,143,883	1,917,728
Property and equipment		
Building and leasehold improvements	3,749,090	3,745,425
Furniture and equipment	241,177	337,250
Vehicles	145,083	71,583
Construction-in-progress	50,796	-
Total property and equipment	4,186,146	4,154,258
Less accumulated depreciation and amortization	(2,584,348)	(2,572,809)
Net property and equipment	1,601,798	1,581,449
Total assets	$ 3,745,681	$ 3,499,177

LIABILITIES AND NET ASSETS

	2019	2018
Current liabilities		
Accounts payable	$ 45,094	$ 32,324
Accrued liabilities	144,303	147,377
Total current liabilities	189,397	179,701
Net assets		
Without donor restrictions:		
Undesignated	1,059,039	1,726,080
Board designated:		
Leasehold improvements	200,000	-
Purchase of leased real property	650,000	-
Invested in property and equipment	1,601,798	1,581,449
Total without donor restrictions	3,510,837	3,307,529
With donor restrictions	45,447	11,947
Total net assets	3,556,284	3,319,476
Total liabilities and net assets	$ 3,745,681	$ 3,499,177

See accompanying notes to financial statements.

BOBBY BENSON CENTER

Statement of Activities

For the Year Ended June 30, 2019
(with comparative totals for the year ended June 30, 2018)

	Without Donor Restrictions	With Donor Restrictions	2019 Total	2018 Total
Revenue and support				
Government contracts and grants	$ 3,135,016	$ -	$ 3,135,016	$ 3,264,595
Contributions	35,428	43,500	78,928	48,716
Program fees	37,455	-	37,455	15,052
Net investment return	39,071	-	39,071	37,429
Interest	17,554	-	17,554	2,361
Special events, net of direct costs of $3,123 in 2018	-	-	-	4,203
Other income	1,240	-	1,240	1,690
Loss on disposal property and equipment	(10,084)	-	(10,084)	-
Net assets released from restriction	10,000	(10,000)	-	-
Total revenue and support	3,265,680	33,500	3,299,180	3,374,046
Expenses				
Program services	2,413,126	-	2,413,126	2,395,527
Supporting services:				
Management and general	649,246	-	649,246	616,973
Fundraising	-	-	-	43,615
Total support services	649,246	-	649,246	660,588
Total expenses	3,062,372	-	3,062,372	3,056,115
Changes in net assets	203,308	33,500	236,808	317,931
Net assets at beginning of year	3,307,529	11,947	3,319,476	3,001,545
Net assets at end of year	$ 3,510,837	$ 45,447	$ 3,556,284	$ 3,319,476

See accompanying notes to financial statements.

BOBBY BENSON CENTER

Statement of Functional Expenses

For the Year Ended June 30, 2019
(with comparative totals for the year ended June 30, 2018)

	Program Services	Supporting Services Management and General	2019 Total	2018 Total
Salaries and wages	$ 1,449,236	$ 369,128	$ 1,818,364	$ 1,838,184
Payroll taxes and benefits	335,544	85,465	421,009	446,772
Total payroll costs	1,784,780	454,593	2,239,373	2,284,956
Occupancy	149,845	38,167	188,012	179,221
Program activities	134,366	-	134,366	138,891
Professional and contract services	80,221	89,415	169,636	123,960
Supplies	52,265	21,464	73,729	67,154
Insurance	36,052	9,183	45,235	47,959
Travel	29,848	7,603	37,451	38,005
Training, meetings and credentialing	29,930	9,579	39,509	22,432
Other	4,082	(9,218)	(5,136)	26,068
Total expenses before depreciation and amortization	2,301,389	620,786	2,922,175	2,928,646
Depreciation and amortization	111,737	28,460	140,197	127,469
Total expenses	$ 2,413,126	$ 649,246	$ 3,062,372	$ 3,056,115

See accompanying notes to financial statements.

BOBBY BENSON CENTER

Statement of Cash Flows

For the Year Ended June 30, 2019
(with comparative totals for the year ended June 30, 2018)

	2019	2018
Cash flows from operating activities		
Changes in net assets	$ 236,808	$ 317,931
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Net unrealized/realized gain on investments	(31,237)	(31,009)
Bad debt expense	(31,701)	13,602
Depreciation and amortization	140,197	127,469
Loss on disposition of property and equipment	10,084	339
(Increase) decrease in assets:		
Accounts receivable	(191,573)	(168,975)
Prepaid expenses	-	12,088
Increase (decrease) in liabilities:		
Accounts payable	12,770	(16,660)
Accrued liabilities	(3,074)	28,884
Total adjustments	(94,534)	(34,262)
Net cash provided by operating activities	142,274	283,669
Cash flows from investing activities		
Proceeds from sale of investments	990	1,245
Purchase of investments	(8,648)	(1,382)
Proceeds from sale of property and equipment	-	895
Purchase of property and equipment	(170,630)	(55,957)
Net cash used in investing activities	(178,288)	(55,199)
Net (decrease) increase in cash and cash equivalents	(36,014)	228,470
Cash and cash equivalents, beginning of year	950,207	721,737
Cash and cash equivalents, end of year	$ 914,193	$ 950,207

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. Net investment return (loss) is reported in the Statement of Activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external and direct internal investment expenses. Net investment return (loss) is reported in the financial statements as increases or decreases in net assets without donor restrictions. Investment return (loss) that is initially restricted by donor stipulation is included in net assets with donor restrictions and is reclassified to net assets without donor restrictions when the time and purpose restrictions are met.

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.

1. Summary of Significant Accounting Policies, continued

Net Assets

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

Net assets without donor restrictions are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Center's management and the Board of Directors.

Net assets with donor restrictions are subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Center or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are classified from net assets with donor restrictions to net assets without donor restrictions in the Statement of Activities.

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 received are recorded as with donor restrictions or without donor restrictions, depending on the existence and/or nature of any donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the accompanying consolidated financial statements as net assets released from restriction.

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 net assets without donor restrictions unless the donor has restricted the donated asset for a specific purpose. Expenses in the same amount are reflected in the financial statements.

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 Center has summarized the costs of program and supporting activities in the Statement of Activities. The expense analysis in the Statement of Functional Expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the program the supporting services benefitted. The financial statements report certain categories of expenses that are attributable to more than one program or support function. These expenses include salaries, payroll taxes and benefits, occupancy, supplies, insurance, travel, trainings, meetings and credentialing and other expenses, which have been allocated based on estimates of time and effort. Program activities and professional and contract services are classified in each functional category based on the underlying purpose of each transaction.

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.

1. Summary of Significant Accounting Policies, continued

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, 2018, from which the summarized information was derived.

Recently Adopted Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14). ASU 2016-14 (1) reduces the number of asset classes presented from three to two; (2) requires the presentation of expenses by functional and natural classification in one location; and (3) requires qualitative and qualitative disclosures about liquidity and availability of financial assets. This ASU was effective for the Center on July 1, 2018, and was applied retrospectively. The total net assets did not change as a result of this new standard; however, net assets are now reported as net assets with donor restrictions or without donor restrictions.

Recent Accounting Pronouncements Not Yet Adopted

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09), which requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity also should disclose sufficient quantitative and qualitative information to ensure users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The new standard is effective for the Center for fiscal years beginning after December 15, 2018 (as amended in August 2015 by ASU No. 2015-14, Deferral of Effective Date). The Center has not yet completed its assessment of the impact of the new standard on its financial statements.

Summary of Significant Accounting Policies, continued

In January 2016, the FASB issued ASU No. 2016-01, *Recognition of Financial Assets and Liabilities* (ASU 2016-01). ASU 2016-01 addresses certain aspects of recognition, measurement, presentation, and disclosure of financial statements. The ASU is effective for not-for-profit entities for fiscal years beginning after December 15, 2018, with early adoption restricted to certain provisions and within certain time periods. The new standard impacts financial liabilities under the fair value option and the presentation and disclosure requirements for financial instruments. The Center has not yet determined the impact of the new standards on its financial statements.

In June 2018, the FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Made* (ASU 2018-08). ASU 2018-08 was issued to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The amendments in this ASU are intended to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profits, or as exchange (reciprocal) transactions subject to other guidance; and (2) determining whether a contribution is conditional. This ASU is effective for the years beginning after December 15, 2018. The Center has not yet determined the impact of the new standards on its financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* (ASU 2016-02). The amendments in ASU 2016-02 create FASB Accounting Standards Codification (ASC) Topic 842, *Leases*, and supersede the requirements in ASC Topic 840, *Leases*. ASU 2016-02 requires the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under ASC Topic 840. Under the guidance of ASU 2016-02, a lessee should recognize in the balance sheet a liability to make lease payments (lease liability) and a right-to-use asset representing its right to use the underlying asset for the lease term. The accounting applied by a lessor under ASU 2016-02 is largely unchanged from that applied under ASC Topic 840. The ASU is effective for the Center's 2022 fiscal year. The Center has not yet determined the impact of the new standard on its financial statements.

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. Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of June 30, 2019, are comprised of the following:

Current assets	$ 2,143,883
Less:	
Board designations:	
Leasehold improvements	(200,000)
Net assets with donor-imposed restrictions	(45,447)
	$ 1,898,436

The Center's policy is to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Center maintains a cash and cash equivalents balance to meet normal operating expenses. Excess cash is periodically transferred into a money market account to maximize earnings. The Center also has a $500,000 line-of-credit available for short term cash flow needs (See Note 4).

3. 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 classified as Level 1 investments. Level 1 investments use inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Center has the ability to access at the measurement date. The investments' fair value on a recurring basis at June 30, 2019, were as follows:

Exchange-traded funds:	
Large blend	$ 350,807
Corporate bond	128,575
Total exchange-traded funds	$ 479,382

4. 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, 2020. 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, 2019, the entire line-of-credit was available and has not been drawn since the 2015 fiscal year.

5. Lease Commitments

The Center leased the land for its operations under a conditional operating lease that was terminated when the property was purchased in February 2020 (See Note 12). In addition, the Center has an operating lease for office equipment, which requires minimum monthly payments through June, 2022. Rental expense for the year was approximately $30,000.

Approximate minimum future payments under the operating leases as of June 30, 2019, are as follows:

Year Ending June 30	Amount
2020	$ 19,000
2021	18,000
2022	18,000
Total	$ 55,000

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 used 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.

6. Net Assets with Donor Restrictions

As of June 30, 2019, net assets with donor restrictions of $45,447 were restricted for program expenditures.

7. 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 2019, the Center contributed approximately $9,000, which is included in payroll taxes and other fringes in the accompanying financial statements.

8. 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. Since HCF has the power to approve distributions to the Center which are generally unrestricted in use, this endowment is not included in the accompanying financial statements. At June 30, 2019, the value of the endowment fund was approximately $744,000. The Center received approximately $29,000 in unrestricted contributions from the Endowment Fund during 2019.

9. Economic Dependency/Financial Support

During 2019, the Center earned approximately 85% of its revenue, support and gains 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.

10. Related Party Transactions

During 2019, the Center incurred approximately $20,000 of medical services provided by a Board member. In addition, the Center contracted another Board member as a project manager for the Center's cafeteria improvements. Approximately $51,000 was incurred for the services and capitalized as construction in progress on the Statement of Financial Position.

11. Concentrations

The Center maintains its cash and cash equivalent balances in financial institutions that are insured by the Federal Deposit Insurance Corporation (FDIC) and the Securities Investor Protection Corporation (SIPC). At times, the cash and cash equivalents balances exceed the insured amount. The Center performs ongoing evaluations of the financial institutions to limit its concentration of credit risk exposure.

12. Purchase of Leased Real Property

In February, 2020, the Center entered into an agreement to purchase their leased real property. The purchase price of approximately $650,000 will be funded by a $325,000 foundation grant that was awarded in the 2020 fiscal year, and the Center's available funds.