

Johnston Memorial Hospital Foundation

FINANCIAL STATEMENTS

June 30, 2017



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INDEPENDENT AUDITORS' REPORT

To the Audit Committee of the Board of Directors of
Johnston Memorial Hospital Foundation

We have audited the accompanying financial statements of Johnston Memorial Hospital Foundation (a nonprofit organization), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and changes in net assets, 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 auditor considers 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Johnston Memorial Hospital Foundation as of June 30, 2017, 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.

Cam, Riggs & Ingram, L.L.C.

Raleigh, North Carolina
February 2, 2018

Johnston Memorial Hospital Foundation
Statements of Financial Position

<i>June 30,</i>	2017
Assets	
Current assets	
Unrestricted cash	\$ 121,609
Restricted cash	116,454
Pledges receivable, net	62,857
Total current assets	300,920
Noncurrent assets	
Long-term pledges receivable, net	171,026
Investments	1,032,008
Total noncurrent assets	1,203,034
Total assets	\$ 1,503,954
Liabilities and net assets	
Accounts payable	
Accounts payable	\$ 672
Total liabilities	672
Net assets	
Net assets without donor restrictions	585,672
Net assets with donor restrictions	917,610
Total net assets	1,503,282
Total liabilities and net assets	\$ 1,503,954

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

Johnston Memorial Hospital Foundation
Statements of Activities and Changes in Net Assets

<i>For the year ended June 30, 2017</i>	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains (losses), and other support			
Contributions	\$ 12,540	\$ 122,648	\$ 135,188
Grant income	-	10,950	10,950
Gifts in kind	3,200	2,652	5,852
Investment income	1,640	12,440	14,080
Realized loss on sale of investments	-	(94)	(94)
Unrealized gain on investments	(2,078)	14,120	12,042
Fundraising proceeds	119,669	71,413	191,082
Total revenues, gains, and other support	134,971	234,129	369,100
Expenses			
Program services	100	470,726	470,826
Fundraising	21,282	13,582	34,864
Management and general	12,356	5,913	18,269
Total expenses	33,738	490,221	523,959
Increase (decrease) in total net assets	101,233	(256,092)	(154,859)
Total net assets, beginning of year	484,439	1,173,702	1,658,141
Total net assets, end of year	\$ 585,672	\$ 917,610	\$ 1,503,282

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

Johnston Memorial Hospital Foundation
Schedule of Functional Expenses

For the year ended June 30, 2017

	Supporting Services				
	Program Services	Management & General	Fundraising	Total Supporting	Total
Expenses					
Special events					
Golf tournament	\$ -	\$ -	\$ 12,135	\$ 12,135	\$ 12,135
Social event	-	-	9,147	9,147	9,147
Angel Fund race expense	-	-	5,723	5,723	5,723
Healthy Kids race expense	-	-	5,723	5,723	5,723
Tree of Light expense	-	-	1,344	1,344	1,344
Buy a Brick campaign expense	-	-	792	792	792
Total special events	-	-	34,864	34,864	34,864
Restricted funds					
Gas cards	2,050	-	-	-	2,050
Medical nutrition	211	-	-	-	211
Medical service	193	-	-	-	193
Medical supplies	8,465	-	-	-	8,465
Medication	8,822	-	-	-	8,822
Transportation	5,041	-	-	-	5,041
Plaques and engraving	1,740	-	-	-	1,740
Food	500	-	-	-	500
Floral arrangements	930	-	-	-	930
HK sessions and miscellaneous	14,081	-	-	-	14,081
Other	(1,489)	-	-	-	(1,489)
Total restricted funds	40,544	-	-	-	40,544
Other expenses					
Hospice expense	43,846	-	-	-	43,846
Funds released to Johnston					
Memorial Hospital	383,646	-	-	-	383,646
Bank fees	-	435	-	435	435
Merchant service fees	-	1,014	-	1,014	1,014
Investment fees	-	4,715	-	4,715	4,715
Other expense	100	-	-	-	100
Adjustments to reserves	-	2,250	-	2,250	2,250
Accounting fees	-	9,855	-	9,855	9,855
Pledge write-off expense	2,690	-	-	-	2,690
Total other expenses	430,282	18,269	-	18,269	448,551
Total functional expenses	\$470,826	\$ 18,269	\$ 34,864	\$ 53,133	\$523,959

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

Johnston Memorial Hospital Foundation
Statements of Cash Flows

<i>Year ended June 30,</i>	2017
Cash flows from operating activities	
Change in net assets	\$ (154,859)
Adjustments to reconcile increase (decrease) in net assets to cash flows used in operations	
Unrealized gains on investments	(12,042)
Adjustments for changes in assets and liabilities	
(Increase) decrease in operating assets	
Pledges receivable, net	96,708
Increase (decrease) in operating liabilities	
Accounts payable	(45,297)
Net cash used in operating activities	(115,490)
Cash flows from investing activities	
Proceeds from the sale of investments	58,939
Purchase of investments	(12,000)
Net cash provided by investing activities	46,939
Net increase (decrease) in cash	(68,551)
Cash at beginning of year	306,614
Cash at end of year	\$ 238,063

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

Johnston Memorial Hospital Foundation Notes to Financial Statements

NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

Johnston Memorial Hospital Foundation. (“the Foundation”) is a private, IRS Section 501(c)(3) not-for-profit organization that was incorporated in North Carolina on December 4, 1992. The Foundation provides support to the operation of Johnston Health in Johnston County, North Carolina, through raising funds for the Hospital and its programs.

Basis of Presentation

The financial statements of Johnston Memorial Hospital Foundation have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its *Accounting Standards Codification (ASC) topic 958, Not-for-Profit Entities, Accounting Standards Update ASU 2016-14*. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017. Early application of the ASU is permitted and being implemented by the Foundation for this fiscal year. Under ASU 2016-14, the Foundation reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions, and net assets with donor restrictions.

Net assets without donor restrictions are resources available to support operations. The only limits on the use of net assets without donor restrictions are the broad limits resulting from the nature of the Foundation, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status.

Net assets with donor restrictions are resources that are restricted by a donor for use for a particular purpose or in a particular future period. The Foundation's unspent contributions are reported in this class if the donor limited their use, as are promised contributions that are not yet due. The unspent appreciation of the Foundation's donor-restricted endowment fund is also reported as net assets with donor restrictions.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, the Foundation considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents. Restricted cash is cash that has been received with donor-imposed restrictions limiting its use to long-term purposes.

Johnston Memorial Hospital Foundation
Notes to Financial Statements

**NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Promises to Give and Contributions

Promises to give are recognized upon notification of a donor's unconditional promise to give to the Foundation. Unconditional promises to give are measured at net realizable value because that amount results in a reasonable estimate of fair value in accordance with the Contributions Received section of the FASB ASC 958-605. The estimated allowance for uncollectible pledges at June 30, 2017 is \$1,944.

Contributions are considered to be available for unrestricted use at the Foundation's discretion, unless restrictions are imposed by the donors. Amounts received that are designated for future periods or restricted by donors for specific purposes are reported as net assets with donor restrictions. As donor-imposed restrictions are met or expire, net assets with donor restrictions are reclassified as net assets without donor restrictions. Contributions received with donor-imposed restrictions that are met in the same year in which the contributions are received are classified as net assets without donor restrictions.

Donated Services

Donated services that do not either require specialized skills or enhance nonfinancial assets are not recorded in the accompanying financial statements because no objective basis is available to measure the value of such services. A substantial number of volunteers have donated significant amounts of their time to the Foundation's program services and its fundraising campaigns, the value of which is not recorded in the accompanying financial statements.

In-Kind Contributions

Contributions of donated noncash assets are recorded at their fair market values in the periods received. During the year ended June 30, 2017, the Foundation received donated materials and supplies of \$5,852.

Income Taxes

The Foundation is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and comparable state law as a charitable organization, whereby only unrelated business income, as defined by Section 509(a)(1) of the Code is subject to federal income tax. The Foundation currently has no unrelated business income. Accordingly, no provision for income taxes has been recorded. The Foundation has adopted the provisions of the FASB standard on *Accounting for Uncertainty in Income Taxes*. The Foundation does not believe there are any material uncertain tax positions and, accordingly, has not recognized any liability for unrecognized tax benefits. For the year ended June 30, 2017 and 2016, there were no interest or penalties recorded or included in its financial statements.

Johnston Memorial Hospital Foundation
Notes to Financial Statements

**NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the Statements of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

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 certain reported amounts and disclosures. On an ongoing basis, management evaluates the estimates and assumptions based on new information. Management believes that the estimates and assumptions are reasonable in the circumstances; however, actual results could differ from those estimates.

Geographic Concentration

The Foundation conducts its operations solely within central North Carolina, and, therefore, is subject to risks from changes in local economic conditions. A downturn in the local economy could cause a decrease in contributions concurrently with an increase in community need for the Foundation's services.

Subsequent Events

Management has evaluated all events or transactions that occurred after June 30, 2017 through February 2, 2018, the date the Foundation issued these financial statements. During this period, the Foundation did not have any material subsequent events that required recognition in the financial statements or disclosures for the year ended June 30, 2017.

Johnston Memorial Hospital Foundation
Notes to Financial Statements

**NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Recently Issued Accounting Pronouncements

In May 2014, the FASB released Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers. ASU 2014-09 creates FASB ASC 606, Revenue from Contracts with Customers, and will co-exist with FASB ASC 605, Revenue Recognition, until FASB ASC 606 is fully effective. However, the standards for the recognition of revenue from contributions by nonprofit organizations will be retained in FASB ASC 958-605, which will be retitled Not-for-Profit Entities-Revenue Recognition-Contributions when ASU 2014-09 is effective. Under the guidance, the entity will recognize revenue to depict the transfer of promised goods or services to customers in amounts that reflect the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard (as revised) is effective for annual reporting periods beginning after December 15, 2018.

In February 2016, the FASB released an Accounting Standards Update of Topic 840, *Leases*. This update requires that lessees and lessors should apply a right-of-use model in accounting for all leases, with certain exemptions. Under this model, the Foundation would recognize an asset representing its right to use the leased property and a liability to make the lease payments. This model could have an impact on the Foundation's statements of financial position and presentation of expenses in its statement activities and changes in net assets. The standard is effective for non-public Companies for reporting periods beginning after December 15, 2019. The Foundation has not determined the impact this auditing standard update would have on the Foundation's financial statements.

Johnston Memorial Hospital Foundation
Notes to Financial Statements

NOTE 2 – PROMISES TO GIVE

Unconditional promises to give at June 30, 2017, were as follows:

Angel Fund	\$ 10,735
Healthy Kids Fund	17,278
Clayton Chapel Naming	48,000
Naming Rights for Cath Lab	16,154
General Fund	70,500
3D Mammography	85,829
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Total	\$ 248,496
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Receivable in less than one year	\$ 64,801
Receivable in one to five years	177,695
Receivable in more than five years	6,000
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Total unconditional promises to give	248,496
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Less:	
Discount to present value	(7,158)
Allowance for uncollectible promises to give	(7,455)
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Net unconditional promises to give at June 30, 2017	\$ 233,883
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As of June 30, 2017, the allowance for uncollectible promises to give is recorded at 3% of the total receivables balance, based on historical collections data. Additionally, promises to give to be received between one and five years, and more than five years, are discounted using a rate of 2.45% through the expected term of the promises to give receivable.

Johnston Memorial Hospital Foundation
Notes to Financial Statements

NOTE 3 – INVESTMENTS

The amortized cost and fair value of securities, with gross unrealized gains and losses, follows:

<i>June 30, 2017</i>	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale	\$ 822,256	\$ -	\$ (12,002)	\$ 810,254
Board-restricted endowment	6,011	103	-	6,114
Beneficial interest in assets held by another	191,699	23,941	-	215,640
Total investments	\$ 1,019,966	\$ 24,044	\$ (12,002)	\$ 1,032,008

A reconciliation of investment activity income, including interest, dividends, and gross realized and unrealized gains, follows:

<i>For the year ended June 30, 2017</i>	Net assets without donor restrictions	Net assets with donor restrictions	Total
Interest, dividends and capital gains	\$ 1,640	\$ 12,440	\$ 14,080
Realized loss on sales of securities	-	(94)	(94)
Unrealized (losses) gains	(2,078)	14,120	12,042
Investment fees	(426)	(4,289)	(4,715)
Total investment return	\$ (864)	\$ 22,177	\$ 21,313

The above investment activity is classified in the statements of changes in net assets as follows:

<i>June 30,</i>	2017
Net assets without donor restrictions	\$ 135,263
Net assets with donor restrictions	896,745
Total investments	\$ 1,032,008

Johnston Memorial Hospital Foundation
Notes to Financial Statements

NOTE 4 – ENDOWMENT FUNDS

Beneficial Interests in Assets Held by a Third Party

The Foundation has an endowment fund held in trust by the North Carolina Community Foundation. Income from the endowment fund is available to be distributed annually for the general operating support of the Foundation. While the stated intention of the agreement is for the principal to remain undistributed, the principal may be distributed at the Foundation's discretion. The value of the endowment fund at June 30, 2017 is as follows:

<i>As of June 30, 2017</i>	Net assets without donor restrictions	Net assets with donor restrictions	Total
Beneficial interest in assets held by another Board-designated endowment funds	\$ -	\$ 215,640	\$ 215,640
	6,114	-	6,114
Total funds	\$ 6,114	\$ 215,640	\$ 221,754

The following table displays changes in endowment net assets:

	Net assets without donor restrictions	Net assets with donor restrictions	Total
Endowment net assets, June 30, 2016	\$ -	\$ 193,905	\$ 193,905
Unrealized gain	103	23,941	24,044
Investment return	-	4,379	4,379
Contributions	6,011	6,000	12,011
Distributions	-	(10,470)	(10,470)
Investments fees	-	(2,115)	(2,115)
Endowment net assets, June 30, 2017	\$ 6,114	\$ 215,640	\$ 221,754

The Foundation's Board of Directors has interpreted the North Carolina Uniform Prudent Management of Institutional Funds Act (NCUPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as net assets with restrictions: (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

Johnston Memorial Hospital Foundation
Notes to Financial Statements

NOTE 4 – ENDOWMENT FUNDS (CONTINUED)

The Foundation has a board-approved total return spending policy that allows the Foundation to receive distributions of income up to the total received, without affecting the corpus. These distributions follow donor restrictions and guidelines within the Foundation's programs. During the year ended June 30, 2017 the Foundation received distributions of \$10,470 from the endowment fund.

NOTE 5 – FAIR VALUE MEASUREMENTS

Management of the Organization applies ASC 820, *Fair Value Measurements*, which establishes a framework for measuring fair value and expands disclosures about fair value measurements. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are described as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs, other than quoted prices, that are observable for the asset or liability; or
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The following describes valuation methodologies used for assets measured at fair value:

Johnston Memorial Hospital Foundation
Notes to Financial Statements

NOTE 5 – FAIR VALUE MEASUREMENTS (CONTINUED)

Securities Available for Sale: Where quoted prices are available in an active market, securities are classified within Level 1 of the hierarchy. Level 1 securities include highly liquid government bonds, certain mortgage products and exchange-traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows. Examples of such instruments, which would generally be classified within Level 2 of the valuation hierarchy, include certain collateralized mortgage and debt obligations and certain high-yield debt securities

Endowment Funds: Investments held in the endowment funds are valued at fair value based on the closing price for securities listed on a securities exchange, the closing bid or ask price for over-the-counter securities not listed on a securities exchange, or at cost or at a value obtained from an independent pricing service for securities not listed or traded on any exchange or on the over-the-counter market. The custodian of the investments in the endowment funds also has the ability to determine the fair value of securities not listed or traded on any exchange or on the over-the-counter market based on available information. The endowment fund value is value at the number of units held by the Foundation and the fund's unit value.

In certain cases, where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy. Securities classified within Level 3 include residual interests in securitizations and other less liquid securities.

The Foundation's investments held with the North Carolina Community Foundation are classified as Level 3 assets, due to the significant unobservable inputs used in estimating fair value. The objective of this fund is to invest in fixed income, equity, and other securities for the purpose of generating investment returns for the partners. Significant unobservable inputs used include closing prices of securities, pricing models, and discounted cash flows. The fair value of underlying assets is the valuation technique used to measure the fair value of the assets, the significant unobservable inputs, and the ranges of values for those inputs.

Johnston Memorial Hospital Foundation
Notes to Financial Statements

NOTE 5 – FAIR VALUE MEASUREMENTS (CONTINUED)

Assets measured at fair value on a recurring basis are summarized below:

Fair Value Measurements at Reporting Date Using				
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Observable Inputs (Level 3)
<i>June 30, 2017</i>				
Securities available for sale	\$ 810,254	\$ 810,254	\$ -	\$ -
Board-designated endowment funds	6,114	6,114	-	-
Beneficial interest in assets held by another	215,640	-	-	215,640
Total investments	\$ 1,032,008	\$ 816,368	\$ -	\$ 215,640

The following table reconciles the Foundation's assets classified as Level 3 measurements:

<i>For the year ended June 30,</i>	2017
Balance, beginning of year	\$ 193,905
Purchases, issuances, and settlements	6,000
Sales of investments	(10,470)
Net realized and unrealized losses included in earnings	26,205
Balance, end of year	\$ 215,640
 Net unrealized gains on Level 3 securities held at end of year	 \$ 23,941

Johnston Memorial Hospital Foundation
Notes to Financial Statements

NOTE 6 - NET ASSETS AND RESTRICTIONS

Net assets with donor restrictions are available for the following purposes as follows:

<i>June 30,</i>	2017
Angel Fund	\$ 93,664
Patient Assistance Fund	32,293
Hospice Center	732,472
Healthy Kids Fund	59,108
3D Mammography	(41,023)
Cath Lab Naming	27,419
Clayton Chapel Naming	3,883
Johnston Health	18,363
Emergency Room Project	12,225
Home Health	(20,794)
Total net assets with donor restrictions	\$ 917,610

NOTE 7 – CHANGE IN ACCOUNTING PRINCIPLE

As discussed in Note 1 to the financial statements, the Financial Accounting Standards Board enacted *Accounting Standards Update ASU 2016-14*, an update to its *Accounting Standards Codification (ASC) topic 958, Not-for-Profit Entities*. The standard is effective for fiscal years beginning after December 15, 2017. Early application of the ASU is permitted and being implemented by the Foundation for this fiscal year. Accordingly, the Foundation reviewed all of its net asset classifications and reclassified \$484,439 of unrestricted net assets to net assets without donor restrictions, and \$1,173,702 of temporarily restricted net assets to net assets with donor restrictions as of June 30, 2017.

NOTE 8 – RELATED ENTITIES

The Foundation has an agreement with Johnston Memorial Hospital (“the Hospital”) for services and facilities. During the year ended June 30, 2017, the Hospital employed all three of the Foundation staff. The Foundation reimbursed the cost of expenses paid by the Hospital, totaling \$383,646 for the year ended June 30, 2017. The Hospital also provided payroll and human resources services, internet and mailing services, office space, and office equipment without charge.