

ST. LUKE'S HEALTH CARE FOUNDATION

Financial Statements

December 31, 2018

(With Independent Auditors' Report Thereon)

ST. LUKE'S HEALTH CARE FOUNDATION

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Independent Auditors' Report

Board of Directors
St. Luke's Health Care Foundation:

We have audited the accompanying financial statements of St. Luke's Health Care Foundation, which comprise the statement of financial position as of December 31, 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.

Auditor's 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 auditor's 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 St. Luke's Health Care Foundation as of December 31, 2018, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in note 2 to the financial statements, in 2018, St. Luke's Health Care Foundation adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Report on 2018 Financial Statements

The financial statements of St. Luke's Health Care Foundation as of December 31, 2017, were audited by other accountants, and they expressed an unmodified opinion on those financial statements in their report dated August 31, 2018, but they have not performed any auditing procedures since that date.

Paul J. Smit & Associates

October 29, 2019

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ST. LUKE'S HEALTH CARE FOUNDATION

Statements of Financial Position

December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Assets		
Cash and cash equivalents	\$ 540,288	\$ 822,005
Accounts receivable	86,054	2,928
Certificates of deposit	<u>336,148</u>	<u>68,275</u>
Total assets	<u>\$ 962,490</u>	<u>\$ 893,208</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	<u>\$ 2,622</u>	<u>\$ 5,257</u>
Total liabilities	<u>2,622</u>	<u>5,257</u>
Net assets:		
Without donor restrictions		
Available for general activities	244,045	248,880
Board designated benevolent endowment	<u>104,527</u>	<u>68,275</u>
Total net assets without donor restrictions	348,572	317,155
With donor restrictions	<u>611,296</u>	<u>570,796</u>
Total net assets	<u>959,868</u>	<u>887,951</u>
Total liabilities and net assets	<u>\$ 962,490</u>	<u>\$ 893,208</u>

See accompanying notes to financial statements.

ST. LUKE'S HEALTH CARE FOUNDATION

Statements of Activities

Years ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Changes in net assets without donor restrictions:		
Support and revenue:		
Contributions	\$ 142,431	\$ 186,525
Investment income	7,338	3,121
Total support and revenue before releases of restrictions	149,769	189,646
Net assets released from restrictions - Satisfaction of purpose restrictions	<u>344,677</u>	<u>244,220</u>
Total support and revenue	<u>494,446</u>	<u>433,866</u>
Expenses:		
Program services	407,607	286,641
Supporting services:		
Management and general	49,425	46,049
Fundraising	5,997	17,373
Total expenses	<u>463,029</u>	<u>350,063</u>
Change in net assets without donor restrictions	<u>31,417</u>	<u>83,803</u>
Changes in net assets with donor restrictions:		
Contributions - restricted by purpose	385,177	479,730
Net assets released from restrictions - Satisfaction of purpose restrictions	<u>(344,677)</u>	<u>(244,220)</u>
Change in net assets with donor restrictions	<u>40,500</u>	<u>235,510</u>
Change in net assets	71,917	319,313
Net assets at beginning of year	<u>887,951</u>	<u>568,638</u>
Net assets at end of year	<u>\$ 959,868</u>	<u>\$ 887,951</u>

See accompanying notes to financial statements.

ST. LUKE'S HEALTH CARE FOUNDATION

Statement of Functional Expenses

Year ended December 31, 2018

	<u>Supporting services</u>			
	<u>Program Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total expenses</u>
Supplies:				
Medical	\$ 207	\$ —	\$ —	\$ 207
Non-medical	1,062	—	—	1,062
Building project costs	181,621	—	—	181,621
Benevolence	147,289	—	—	147,289
Medical equipment	—	—	—	—
Supplies, doctor training and other	77,428	—	—	77,428
Professional fees and services	—	36,185	5,997	42,182
Travel	—	6,786	—	6,786
Bank charges and fees	—	6,454	—	6,454
Total expenses	<u>\$ 407,607</u>	<u>\$ 49,425</u>	<u>\$ 5,997</u>	<u>\$ 463,029</u>

See accompanying notes to financial statements.

ST. LUKE'S HEALTH CARE FOUNDATION

Statement of Functional Expenses

Year ended December 31, 2017

	<u>Supporting services</u>			
	<u>Program Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total expenses</u>
Supplies:				
Medical	\$ 51,840	\$ —	\$ —	\$ 51,840
Non-medical	3,693	—	—	3,693
Building project costs	55,996	—	—	55,996
Benevolence	99,767	—	—	99,767
Medical equipment	33,103	—	—	33,103
Supplies, doctor training and other	42,242	—	—	42,242
Professional fees and services	—	33,403	17,373	50,776
Travel	—	8,043	—	8,043
Bank charges and fees	—	4,603	—	4,603
Total expenses	<u>\$ 286,641</u>	<u>\$ 46,049</u>	<u>\$ 17,373</u>	<u>\$ 350,063</u>

See accompanying notes to financial statements.

ST. LUKE'S HEALTH CARE FOUNDATION

Statements of Cash Flows

Years ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Contributions and other public support	\$ 444,482	\$ 663,327
Interest income	7,338	3,121
Cash paid to suppliers, contractors and grantees	<u>(465,664)</u>	<u>(346,241)</u>
Net cash provided by (used in) operating activities	<u>(13,844)</u>	<u>320,207</u>
Cash flows from investing activities:		
Purchases of certificates of deposit	<u>(267,873)</u>	<u>(68,275)</u>
Net cash used in investing activities	<u>(267,873)</u>	<u>(68,275)</u>
Net increase (decrease) in cash and cash equivalents	(281,717)	251,932
Cash and cash equivalents at beginning of year	<u>822,005</u>	<u>570,073</u>
Cash and cash equivalents at end of year	<u>\$ 540,288</u>	<u>\$ 822,005</u>
Reconciliation of change in net assets to		
cash flows from operating activities:		
Change in net assets	\$ 71,917	\$ 319,313
Adjustments to reconcile change in net assets		
to net cash provided by (used in) operating activities:		
Changes in assets and liabilities:		
Accounts receivable	(83,126)	(2,928)
Accounts payable	<u>(2,635)</u>	<u>3,822</u>
Net cash provided by (used in) operating activities	<u>\$ (13,844)</u>	<u>\$ 320,207</u>

ST. LUKE'S HEALTH CARE FOUNDATION

Notes to Financial Statements

December 31, 2018 and 2017

(1) Description of Organization

St. Luke's Health Care Foundation (SLHCF) was created to support faith based health care in Africa, primarily by supporting the operations of a hospital located in Soddo, Ethiopia.

SLHCF was incorporated on July 9, 2003 under the laws of the State of Illinois as a not-for-profit organization and is exempt from federal income taxes under section 501(c)(3) of the U.S. Internal Revenue Code and comparable state law, and contributions to it are tax deductible within the limitations prescribed by the Code. It is classified as a publicly supported organization, which is not a private foundation under Section 509(a).

SLHCF's revenues consist primarily of contributions from foundations, churches and individuals.

(2) Summary of Significant Accounting Policies

The financial statements of SLHCF have been prepared on the accrual basis of accounting; consequently, revenues are recognized when earned and expenses when the obligation is incurred. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

Basis of Presentation

SLHCF maintains its accounts in accordance with the requirements of generally accepted accounting principles (GAAP), which requires that resources be classified for reporting purposes based on the existence or absence of donor-imposed restrictions. This is accomplished by classification of balances into two classes of net assets – without donor restrictions and with donor restrictions. Descriptions of the two net asset categories and the types of transactions affecting each category follow:

- Without Donor Restrictions – net assets that are not subject to donor-imposed restrictions and are available for ministry purposes under the direction of the Board of Directors. Items that affect this category principally consist of cash and contributions that are not restricted, interest income whose use is not restricted, grant revenues, as well as all expenses incurred in connection with the operations of SLHCF.
- With Donor Restrictions – net assets subject to donor-imposed restrictions that will be met either by actions of SLHCF or the passage of time. Items that affect this category are gifts for which restrictions have not been met. These amounts are reclassified to net assets when such restrictions are met or have expired.

Also included in this category are net assets subject to donor-imposed restrictions to be maintained permanently by SLHCF, including gifts wherein donors stipulate that the corpus be held in perpetuity and only income be made available for program operations. SLHCF has no permanently restricted net assets.

ST. LUKE'S HEALTH CARE FOUNDATION

Notes to Financial Statements

December 31, 2018 and 2017

Contributions

Gifts, including unconditional pledges, are recognized in the appropriate category of net assets in the period received. Contributions of assets other than cash are recorded at estimated fair value at the date of the gift. When a donor 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 statement of activities as net assets released from restrictions.

Unconditional promises to give (pledges) expected to be collected within one year increase net assets with donor restrictions and are reported at their net realizable value. Unconditional gifts expected to be collected in future years increase net assets with donor restrictions and are reported at the present value of estimated future cash flows. The resulting discount is amortized and is reported as contribution revenue, consistent with donor-imposed restrictions on the contributions, if any. Conditional promises to give and intentions to give are not recognized until the conditions are substantially met.

Fair Value

Fair value is defined as the price that SLHCF would receive upon selling an asset or pay to settle a liability in an orderly transaction between market participants.

SLHCF uses a framework for measuring fair value that includes a hierarchy that categorizes and prioritizes the sources used to measure and disclose fair value. This hierarchy is broken down into three levels based on inputs that market participants would use in valuing the assets and liabilities based on market data obtained from sources independent of the SLHCF. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available. The three-tier hierarchy of inputs is summarized in the three broad levels listed below:

- Level 1 – quoted market prices in active markets for identical investments.
- Level 2 – inputs other than quoted prices for similar investments in active markets, quoted prices for identical or similar investments in markets that are not active, or inputs other than quoted prices that are observable including model-based valuation techniques.
- Level 3 – valuation techniques that use significant inputs that are unobservable because they trade infrequently or not at all.

ST. LUKE'S HEALTH CARE FOUNDATION

Notes to Financial Statements

December 31, 2018 and 2017

i) *Cash and Cash Equivalents*

Cash and cash equivalents include petty cash, checking and money market accounts, as well as certificates of deposit with original maturities of 90 days or less. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments. Cash equivalents are considered Level 1 in the fair value hierarchy.

ii) *All Other Assets and Liabilities*

The carrying values of all other assets and liabilities do not differ materially from their estimated fair value.

Contributed Services

A substantial number of individuals have volunteered their services to SLHCF. In-kind donations and services requiring specific expertise have been reflected in the financial statements at their estimated fair value. The estimated value of services that do not require special expertise, while having a significant impact on making the ministry effective, has not been recorded in the financial statements because it does not meet certain criteria of donated services required to be recorded.

Functional Allocation of Expenses

Expenses are recorded when incurred. The costs of providing various program and supporting activities have been summarized on a functional basis in the accompanying statement of activities. Accordingly, certain occupancy and administrative costs have been allocated among the programs and supporting services benefited based on estimates made by management. The supporting services are indispensable to the conduct of the program activities and to SLHCF's existence.

Income Taxes

SLHCF has received a determination letter from the Internal Revenue Service indicating that it is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code of 1986, except for income taxes pertaining to unrelated business income. No provision has been made for income taxes in the accompanying financial statements for the years ended December 31, 2018 and 2017, as SLHCF has had no significant unrelated business net income. As of December 31, 2018 and 2017, SLHCF had no uncertain tax positions.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken and recognize a tax liability (or asset) if the organization has taken an uncertain tax position that more likely than not would not be sustained upon examination by taxing authorities. Management has analyzed the tax positions taken and has concluded that as of December 31, 2018 and 2017, there are no uncertain income tax positions that would require recognition of a liability (or asset) or disclosure in the financial statements. SLHCF has filed income tax returns through the year ended December 31, 2017 and believes it is no longer subject to income tax examination for years prior to the year ended December 31, 2013.

ST. LUKE'S HEALTH CARE FOUNDATION

Notes to Financial Statements

December 31, 2018 and 2017

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires that management make estimates and assumptions related to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reporting of revenues, expenses, gains, losses, and other changes in net assets during the period. Actual results may differ from those estimates.

Reclassifications

Certain amounts presented in the accompanying 2017 financial statements have been reclassified to conform to the 2018 presentation.

New Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU 2016-14), *Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 represents Phase 1 of FASB's Not-for-Profit financial reporting project and reduces the number of net asset classes from three to two which are based on the existence or absence of donor restrictions, requires expense presentation by functional and natural classification, requires quantitative and qualitative information on liquidity, retains the option to present the cash flow statement on a direct or indirect method as well as includes various other additional disclosure requirements. Investment return will be reported net of certain investment expenses and breakout of the investment return components will no longer be required. SLHCF adopted this standard in 2018 and applied the changes retrospectively. Net assets previously reported as unrestricted were reclassified in the accompanying financial statements as net assets without donor restrictions, and net assets previously reported as temporarily restricted and permanently restricted were reclassified as net assets with donor restrictions.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope of the Accounting Guidance for Contributions Received and Contributions Made*. This ASU is intended to clarify and improve the scope and accounting guidance for contributions received and contributions made, and is effective for the year ending December 31, 2019. Management is currently evaluating this new accounting standards and its potential impact on the financial statements of SLHCF.

ST. LUKE'S HEALTH CARE FOUNDATION

Notes to Financial Statements

December 31, 2018 and 2017

(3) Net Assets with Donor Restrictions

Net assets with donor restrictions were available for the following purposes as of December 31, 2018 and 2017. All net assets with donor restrictions were restricted by purpose or time; none were restricted in perpetuity.

	<u>2018</u>	<u>2017</u>
Building projects and equipment	\$ 461,412	\$ 516,588
Benevolence	93,486	40,317
Special projects	19,415	5,635
Doctor training	21,407	7,156
Other program purposes	<u>15,576</u>	<u>1,100</u>
	<u>\$ 611,296</u>	<u>\$ 570,796</u>

(4) Liquidity

SLHCF has \$962,490 of financial assets available within one year of the statement of financial position date to meet cash needs for general expenditure. These financial assets consist of cash, accounts receivable, and certificates of deposit. Of these financial assets \$611,296 are subject to donor imposed restrictions on their use; however, none of these financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the statement of financial position date.

(5) Related Party Transactions

One current member and two former members of the board of directors hold an investment interest in an entity, which owns the hospital supported by SLHCF. The investment interest is held in trust for the benefit of and under the direction of SLHCF, effectively offsetting any potential conflict of interest with and for these individuals, who receive no personal benefit from their investment. The reason for this legal set up and structure is because the Ethiopian government, law and regulations do not permit a US charitable organization to have a direct ownership interest in real property.

(6) Concentrations

During the year ended December 31, 2018, SLHCF received 10% of total contributions from 1 donor. During the year ended December 31, 2017, SLHCF received 46% of total contributions from 3 donors.

Financial instruments that potentially subject SLHCF to concentrations of credit risk consist principally of cash deposits and certificates of deposit. Accounts at each financial institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. During the years ended December 31, 2018 and 2017, SLHCF maintained deposits in excess of federally insured limits. At December 31, 2018 and 2017, SLHCF had \$79,813 and \$145,824 in excess of the FDIC insured limit, respectively. This concentration of credit risk was managed by maintaining all deposits in high quality financial institutions.

ST. LUKE'S HEALTH CARE FOUNDATION

Notes to Financial Statements

December 31, 2018 and 2017

(7) Subsequent Events

Management has performed an analysis of the activities and transactions subsequent to December 31, 2018, to determine the need for any adjustments to and/or disclosures within the audited financial statements for the year ended December 31, 2018. Management has performed their analysis through October 29, 2019, the date the financial statements were available to be issued. Activities subsequent to this date have not been evaluated by management.