

TAX FOUNDATION OF HAWAII
FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
December 31, 2016

TAX FOUNDATION OF HAWAII
Honolulu, Hawaii

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**
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CONTENTS

INDEPENDENT ACCOUNTANT'S REVIEW REPORT.....	1
FINANCIAL STATEMENTS	
STATEMENT OF ASSETS, LIABILITIES, AND NET ASSETS – MODIFIED CASH BASIS	3
STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET ASSETS – MODIFIED CASH BASIS	4
NOTES TO THE FINANCIAL STATEMENTS	5
SUPPLEMENTARY INFORMATION	
STATEMENT OF FUNCTIONAL EXPENSES – MODIFIED CASH BASIS	9



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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Board of Directors
Tax Foundation of Hawaii
Honolulu, Hawaii

We have reviewed the accompanying financial statements of Tax Foundation of Hawaii (the "Foundation"), which comprise the statement of assets, liabilities, and net assets – modified cash basis as of December 31, 2016, the related statement of revenues, expenses, and change in net assets – modified cash basis for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of the Foundation's management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of financial statements in the circumstances. Management is also responsible for 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.

Accountant's Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with the modified cash basis of accounting. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountant's Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with the modified cash basis of accounting.

Basis of Accounting

We draw attention to Notes 1 and 6 of the financial statements, which describes the basis of accounting. Effective January 1, 2016, the Foundation prepared its financial statements in accordance with the modified cash basis of accounting, which is a basis of accounting other than generally accepted accounting principles in the United States of America. Previous years were presented on the cash basis of accounting. Net assets as of December 31, 2015 have been restated to reflect the net effect of changing to the modified cash basis of accounting. Our conclusion is not modified with respect to this matter.

Other Matter

The supplementary statement of functional expenses – modified cash basis for the year ended December 31, 2016 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information is the representation of management. We have reviewed the information and, based on our review, we are not aware of any material modifications that should be made to the information in order for it to be in accordance with the modified cash basis of accounting. We have not audited the information and, accordingly, do not express an opinion on such information.



An Accountancy Corporation

Honolulu, Hawaii
March 22, 2017

TAX FOUNDATION OF HAWAII
STATEMENT OF ASSETS, LIABILITIES, AND NET ASSETS
MODIFIED CASH BASIS
December 31, 2016

(See Independent Accountant's Review Report)

Assets	
Cash	\$ 28,074
Restricted cash	6,085
Total assets	<u>\$ 34,159</u>
 Liabilities and Net Assets	
Current Liability	
Note payable, current portion	\$ 10,465
 Long-Term Liability	
Note payable, less current portion	<u>2,323</u>
Total liabilities	12,788
 Net Assets	
Unrestricted	15,286
Temporarily restricted	<u>6,085</u>
Total net assets	<u>21,371</u>
Total liability and net assets	<u>\$ 34,159</u>

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

TAX FOUNDATION OF HAWAII
STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET ASSETS
MODIFIED CASH BASIS
Year Ended December 31, 2016

(See Independent Accountant's Review Report)

	Unrestricted	Temporarily Restricted	Total
Revenues Collected			
Membership dues	\$ 98,750	\$ 2,550	\$ 101,300
Contributions	73,789	-	73,789
Seminar registration fees	5,135	515	5,650
Special events	13,230	-	13,230
Interest and dividends	4	-	4
Other income	250	-	250
Net assets released from restrictions	8,402	(8,402)	-
Total revenues collected	<u>199,560</u>	<u>(5,337)</u>	<u>194,223</u>
Expenses Paid			
Program services			
Legislative tax bill service	65,908	-	65,908
Continuing education	45,517	-	45,517
Association of Weinburg Fellows expenses	8,360	-	8,360
Total program services	<u>119,785</u>	<u>-</u>	<u>119,785</u>
Supporting services			
Direct donor benefit	6,335	-	6,335
Fundraising	537	-	537
Management and general	70,975	-	70,975
Total supporting services	<u>77,847</u>	<u>-</u>	<u>77,847</u>
Total expenses paid	<u>197,632</u>	<u>-</u>	<u>197,632</u>
Change in Net Assets	1,928	(5,337)	(3,409)
Net Assets			
Beginning of year, previously stated	36,057	11,422	47,479
Net effect of change in accounting basis	(22,699)	-	(22,699)
Beginning of year, restated	<u>13,358</u>	<u>11,422</u>	<u>24,780</u>
End of year	<u>\$ 15,286</u>	<u>\$ 6,085</u>	<u>\$ 21,371</u>

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

TAX FOUNDATION OF HAWAII
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

NOTE 1 – Summary of Significant Accounting Policies

Nature of Business

Tax Foundation of Hawaii (the “Foundation”) was organized as a nonprofit organization on December 21, 1953, to inform the public, specifically the taxpayer, about the finances of state and local governments in Hawaii.

The Foundation is dependent on contributions and membership dues to fund its operations. Such revenues, by their nature, are variable and unpredictable. Management continues to seek additional sources of revenue to fund future operations of the Foundation.

Basis of Accounting

Effective January 1, 2016, the Foundation changed from the cash basis to the modified cash basis of accounting in order to recognize the note payable as a liability on the statement of financial position. The modified cash basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles in the United States of America (“GAAP”). The modified cash basis of accounting differs from GAAP in that revenues are recognized when received rather than when promised or earned, expenses are recognized when cash is disbursed rather than when the obligation is incurred, and capital assets are fully expensed when purchased rather than amortized over their useful life.

Cash Equivalents

The Foundation considers all highly liquid investments with original maturities of three months or less to be cash equivalents. There were no cash equivalents as of December 31, 2016.

Restricted Cash

Restricted cash represents funds maintained for the Foundation's Association of Weinberg Fellows (“AWF”) program. The disbursement of these funds is restricted to support program objectives.

Net Asset Categories

The Foundation classifies its net assets and its revenues based on the existence or absence of donor-imposed restrictions.

Permanently restricted net assets are those for which donor-imposed restrictions limit the Foundation's use of an asset or its economic benefits that neither expire with the passage of time nor can be removed by the Foundation meeting certain requirements. The Foundation did not have any permanently restricted net assets as of December 31, 2016.

TAX FOUNDATION OF HAWAII
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Temporarily restricted net assets are those that carry restrictions that expire upon the passage of a prescribed period or upon the occurrence of a stated event as specified by the donor. Temporarily restricted net assets consist of contributions for the AWF program (Note 4).

Unrestricted net assets are those not included under permanently or temporarily restricted categories. Donor-restricted contributions that are received and expended in the same reporting period are classified as unrestricted. All expenses are recorded as a reduction to unrestricted net assets. Board designated net assets (Note 5) represent special gifts and one-time contributions that are not anticipated to be received on a regular basis. Expenditures that are unusual and unanticipated must be approved by the majority of the Board of Directors. The Board has also designated that these net assets be utilized to provide any severance benefits, unemployment obligations, and lease termination costs that might be incurred upon winding down of the Foundation's operations in the event of a serious adverse change in the Foundation's financial condition.

Donated Services and Facilities

Various individuals and businesses donate their time and facilities toward the Foundation's activities; however, these activities have not been recorded in the accompanying financial statements.

Furniture and Equipment

The costs of furniture and equipment are expensed when purchased.

Income Taxes

The Foundation is a nonprofit organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Foundation did not have any unrelated business income and has not paid any income taxes for the year ended December 31, 2016.

The Foundation recognizes the financial statement effects of tax positions when it is more-likely-than-not, based on the technical merits, that the position will be sustained upon examination. Management considers the facts, circumstances, and information available to determine whether or not a tax position has met the more-likely-than-not recognition threshold. The tax benefit is recognized at the largest amount that is more than 50% likely to be realized upon ultimate settlement. Management evaluated its tax positions for the year ended December 31, 2016, and determined that it has no unrecognized tax benefits requiring financial statement recognition.

The Foundation recognizes interest and penalties related to its tax positions as interest and penalty expense, respectively.

TAX FOUNDATION OF HAWAII
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Concentrations of Credit Risk

The Foundation places its cash with financial institutions that are insured by the Federal Deposit Insurance Corporation (“FDIC”) up to certain limits. The Foundation’s cash deposits were not in excess of the FDIC limits as of December 31, 2016.

NOTE 2 – Note Payable

The Company obtained a \$30,000 note with an interest rate of 5.95% and monthly payments of \$912. The loan matures on July 21, 2018 and is secured by the Foundation’s assets.

Principal maturities for the years ending December 31, consist of the following:

2017	\$	10,465
2018		<u>2,323</u>
	\$	<u>12,788</u>

NOTE 3 – Operating Lease

The Foundation leases office premises under an operating lease expiring on September 30, 2017. The lease provides for the payment of a monthly minimum rent, maintenance fee and general excise tax. Future minimum rental payments for the year ended December 31, 2017 is \$10,575.

The Foundation’s minimum rent and contingent rent expenses for the year ended December 31, 2016 were \$14,100 and \$11,664, respectively.

NOTE 4 – Temporarily Restricted Net Assets

Weinberg Foundation Grants

The Foundation periodically receives a grant from the Weinberg Foundation to fund expenses incurred to support the activities of the AWF, who are alumni of the Weinberg Leadership Development program. The Foundation is responsible for performing these support services upon the direction of the Weinberg Foundation.

Dues and registration fees of \$3,065 earned from the program have been recorded as temporarily restricted net assets in accordance with the terms of the grant.

TAX FOUNDATION OF HAWAII
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

NOTE 5 – Board Designated Net Assets

The Foundation's board designated endowment fund was used to cover operating expenses during the year ended December 31, 2016. There was no balance remaining in the board designated endowment fund.

NOTE 6 – Change in Accounting Basis

On January 1, 2016, the Foundation changed its basis of accounting to the modified cash basis of accounting. Net assets as of December 31, 2015 were restated by \$22,699 to recognize the note payable as a liability on the Foundation's statement of financial position.

NOTE 7 – Subsequent Events

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through March 22, 2017, the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

TAX FOUNDATION OF HAWAII
SUPPLEMENTARY INFORMATION - STATEMENT OF FUNCTIONAL EXPENSES
MODIFIED CASH BASIS

Year Ended December 31, 2016

(See Independent Accountant's Review Report)

	Program Services				Supporting Services			Total
	Legislative Tax Bill Service	Continuing Education	Association of Weinburg Fellows	Total	Fundraising	Management and General	Total	
Salaries and payroll taxes	\$ 48,822	\$ 34,707	\$ 3,405	\$ 86,934	\$ -	\$ 47,069	\$ 134,003	
Rent	9,188	6,802	-	15,990	-	9,774	25,764	
Employee benefits	4,539	3,070	-	7,609	-	4,405	12,014	
Special events	-	-	-	-	6,872	-	6,872	
Seminars	2,314	-	2,520	4,834	-	-	4,834	
Dues	-	-	-	-	-	3,685	3,685	
Other	-	-	388	388	-	2,129	2,517	
Pension	-	-	-	-	-	1,493	1,493	
Meals and lodging	-	-	1,347	1,347	-	-	1,347	
Telephone	451	344	-	795	-	494	1,289	
Interest expense	-	-	-	-	-	1,033	1,033	
Travel	-	-	700	700	-	-	700	
Printing	313	313	-	626	-	-	626	
Equipment and maintenance	281	281	-	562	-	-	562	
Insurance	-	-	-	-	-	504	504	
Entertainment	-	-	-	-	-	389	389	
Total expenses paid	\$ 65,908	\$ 45,517	\$ 8,360	\$ 119,785	\$ 6,872	\$ 70,975	\$ 197,632	