

OKIZU FOUNDATION
FINANCIAL STATEMENTS
For the Years Ended
December 31, 2017 and 2016

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditors' Report	1
Financial Statements	
Statements of Financial Position	2
Statements of Activities	3
Statements of Cash Flows	4 - 5
Statements of Functional Expenses	6
Notes to Financial Statements	7 - 14

Independent Auditors' Report

Board of Directors
Okizu Foundation

We have audited the accompanying financial statements of Okizu Foundation, which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities, cash flows and functional expenses for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of 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 Okizu Foundation as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Novato, California
August 20, 2018

Bregante + Company LLP

OKIZU FOUNDATION**STATEMENTS OF FINANCIAL POSITION****December 31, 2017 and 2016****ASSETS**

	<u>2017</u>	<u>2016</u>
Assets:		
Cash	\$ 384,264	\$ 252,031
Pledges and grants receivable	526,120	685,000
Investments	46,154	45,307
Prepaid expenses	29,155	65,636
Inventory	2,786	4,839
Property and equipment, net	6,265,740	6,473,508
Loan fees, net of accumulated amortization of \$281 and \$22	7,479	7,738
Security deposit	<u>3,609</u>	<u>3,500</u>
Total assets	<u>\$ 7,265,307</u>	<u>\$ 7,537,559</u>

LIABILITIES AND NET ASSETS

Liabilities:		
Accounts payable	\$ 6,997	\$ 8,203
Accrued payroll	23,473	18,293
Accrued interest	1,300	1,392
Note payable	<u>1,043,256</u>	<u>1,411,134</u>
Total liabilities	1,075,026	1,439,022
Net assets:		
Unrestricted:		
Designated - property and equipment, net of related debt	5,222,484	5,062,374
Designated - operating reserve	340,950	145,179
Undesignated	<u>47,572</u>	<u>160,676</u>
Total unrestricted net assets	5,611,006	5,368,229
Temporarily restricted	<u>579,275</u>	<u>730,308</u>
Total net assets	<u>6,190,281</u>	<u>6,098,537</u>
Total liabilities and net assets	<u>\$ 7,265,307</u>	<u>\$ 7,537,559</u>

See accompanying notes to the financial statements.

OKIZU FOUNDATION

STATEMENTS OF ACTIVITIES

For the Years Ended December 31, 2017 and 2016

	<u>2017</u>			<u>2016</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and support:						
Special events revenue	\$ 1,052,990	\$ -	\$ 1,052,990	\$ 1,103,327	\$ -	\$ 1,103,327
Direct benefits to donors	<u>(523,174)</u>	<u>-</u>	<u>(523,174)</u>	<u>(452,879)</u>	<u>-</u>	<u>(452,879)</u>
Special events, net	529,816	-	529,816	650,448	-	650,448
Contributions	1,441,398	129,056	1,570,454	1,429,517	785,000	2,214,517
Contributed goods and services	74,744	-	74,744	85,387	-	85,387
Investment income	78	4,381	4,459	5	4,490	4,495
Other income	4,854	-	4,854	3,049	-	3,049
Net assets released from restrictions	<u>284,470</u>	<u>(284,470)</u>	<u>-</u>	<u>209,579</u>	<u>(209,579)</u>	<u>-</u>
Total revenue and support	2,335,360	(151,033)	2,184,327	2,377,985	579,911	2,957,896
Expenses:						
Program services	1,604,855	-	1,604,855	1,573,990	-	1,573,990
Management and administrative	114,150	-	114,150	94,878	-	94,878
Fundraising	<u>373,578</u>	<u>-</u>	<u>373,578</u>	<u>358,315</u>	<u>-</u>	<u>358,315</u>
Total expenses	<u>2,092,583</u>	<u>-</u>	<u>2,092,583</u>	<u>2,027,183</u>	<u>-</u>	<u>2,027,183</u>
Changes in net assets	242,777	(151,033)	91,744	350,802	579,911	930,713
Net assets, beginning of year	<u>5,368,229</u>	<u>730,308</u>	<u>6,098,537</u>	<u>5,017,427</u>	<u>150,397</u>	<u>5,167,824</u>
Net assets, end of year	<u>\$ 5,611,006</u>	<u>\$ 579,275</u>	<u>\$ 6,190,281</u>	<u>\$ 5,368,229</u>	<u>\$ 730,308</u>	<u>\$ 6,098,537</u>

See accompanying notes to the financial statements.

OKIZU FOUNDATION

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Changes in net assets	\$ 91,744	\$ 930,713
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	237,687	238,842
Amortization of loan fees	259	28,590
Net realized and unrealized gain on investments	(72)	(4,490)
(Increase) decrease in assets:		
Pledges and grants receivable	158,880	(613,000)
Prepaid expenses	36,481	(8,532)
Inventory	2,053	-
Security deposit	(109)	-
Increase (decrease) in liabilities:		
Accounts payable	(1,206)	8,203
Accrued payroll	5,180	(658)
Accrued interest	<u>(92)</u>	<u>(2,579)</u>
Total adjustments	<u>439,061</u>	<u>(353,624)</u>
Net cash provided by operating activities	<u>530,805</u>	<u>577,089</u>
Cash flows from investing activities:		
Purchases of property and equipment	(29,919)	(70,377)
Proceeds from sale of investments	3,600	-
Purchases of investments	(4,375)	-
Net decrease in cash for restricted long term use	<u>-</u>	<u>27,579</u>
Net cash used by investing activities	<u>(30,694)</u>	<u>(42,798)</u>
Cash flows from financing activities:		
Net borrowings (repayments) on line of credit	-	(25,000)
Payments on notes payable	<u>(367,878)</u>	<u>(279,715)</u>
Net cash used by financing activities	<u>(367,878)</u>	<u>(304,715)</u>
Net increase in cash	132,233	229,576
Cash, beginning of year	<u>252,031</u>	<u>22,455</u>
Cash, end of year	\$ <u><u>384,264</u></u>	\$ <u><u>252,031</u></u>

See accompanying notes to the financial statements.

OKIZU FOUNDATION

STATEMENTS OF CASH FLOWS (Continued)

For the Years Ended December 31, 2017 and 2016

Supplemental disclosure of cash flow information:

Cash paid for interest was \$54,283 and \$77,070 for the years ended December 31, 2017 and 2016, respectively.

Supplemental disclosure of non-cash financing activities:

During the year ended December 31, 2016, the Foundation obtained a new note payable from Presidio bank (see Note G) in the amount of \$1,415,286, which was used to repay \$1,410,267 of principal and \$5,465 of accrued interest to Northern Trust Bank of California. Proceeds in the amount of \$7,760 were withheld by the lender for loan issuance fees.

During the year ended December 31, 2016, the Foundation wrote off loan fees of \$28,568 as amortization expense.

See accompanying notes to the financial statements.

OKIZU FOUNDATION

STATEMENTS OF FUNCTIONAL EXPENSES

For the Years Ended December 31, 2017 and 2016

	2017				2016			
	Program Services	Management and Administrative	Fundraising	Total	Program Services	Management and Administrative	Fundraising	Total
Salaries and benefits	\$ 639,614	\$ 62,990	\$ 283,447	\$ 986,051	\$ 577,859	\$ 47,983	\$ 308,882	\$ 934,724
Depreciation and amortization	237,946	-	-	237,946	267,432	-	-	267,432
Repairs and maintenance	151,272	903	2,735	154,910	139,351	1,316	3,986	144,653
Camp food	88,330	-	-	88,330	89,827	-	-	89,827
Utilities	70,738	1,120	3,392	75,250	72,902	1,013	3,067	76,982
Insurance	64,841	2,179	7,770	74,790	65,502	2,631	8,077	76,210
Contributed services	74,744	-	-	74,744	85,387	-	-	85,387
Camper transportation	72,448	-	-	72,448	80,566	-	-	80,566
Fundraising	-	-	56,077	56,077	-	-	17,230	17,230
Occupancy	37,031	4,440	13,448	54,919	33,911	4,066	12,315	50,292
Interest	54,191	-	-	54,191	75,883	-	-	75,883
Office expense	43,062	121	-	43,183	31,869	683	-	32,552
Professional services	-	35,549	-	35,549	-	23,661	-	23,661
Supplies	25,320	1,637	4,957	31,914	19,844	928	2,811	23,583
Recruitment and retention	27,109	-	-	27,109	16,345	-	-	16,345
Miscellaneous	9,883	4,633	-	14,516	11,925	11,954	-	23,879
Postage	8,326	578	1,752	10,656	5,387	643	1,947	7,977
Total expenses	<u>\$ 1,604,855</u>	<u>\$ 114,150</u>	<u>\$ 373,578</u>	<u>\$ 2,092,583</u>	<u>\$ 1,573,990</u>	<u>\$ 94,878</u>	<u>\$ 358,315</u>	<u>\$ 2,027,183</u>
	77%	5%	18%	100%	78%	5%	17%	100%

See accompanying notes to the financial statements.

OKIZU FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE A -- Description of organization

Okizu Foundation (the Foundation) is a nonprofit corporation. It is the mission of the Foundation to provide recreational, respite and peer support programs to meet the needs of all members of families affected by childhood cancer.

The diagnosis of a chronic or life-threatening illness in a family threatens the very nature of the family structure. Children need positive nurturing and support in order to grow and lead fulfilling, productive lives. The family's normal emotional and social environment is greatly disrupted by a diagnosis of childhood cancer. Many children become dysfunctional because of the emotional and physical stress of treatment, and other family members have little support to cope with the stresses they are facing.

The Foundation has established long-term relationships with many of the pediatric oncology units in Northern California including Lucile Salter Packard Children's Hospital at Stanford, Kaiser Hospitals in Oakland, Roseville and San Francisco, Oakland Children's Hospital, John Muir Medical Center, David Grant Hospital at Travis Air Force Base, UC Davis, UC San Francisco and California Pacific Medical Center, which provide assistance to the Foundation so it can carry out its mission.

The purpose of the Foundation is to operate peer support programs for all family members, including families whose child has passed away. There is never a charge for participation in the Foundation's programs because of the emotional, financial and physical burdens placed on the families by this disease.

The Foundation purchased the former Berry Creek Ranch in Butte County, California in 1998. The property has been substantially renovated to house Camp Okizu, a permanent site for summer camps hosting children and families affected by childhood cancer.

NOTE B -- Summary of significant accounting policies

Basis of accounting

The accompanying financial statements have been prepared on the accrual basis of accounting.

Concentration of credit risk

Financial instruments that potentially subject the Foundation to a concentration of credit risk consist principally of cash deposits and pledges and grants receivable. Cash deposits are maintained at three financial institutions. The balances at times may exceed federally insured limits. The Foundation has not experienced any losses with respect to these deposits. Management believes that the Foundation is not exposed to any significant credit risk with respect to cash deposits and pledges and grants receivable.

OKIZU FOUNDATION

NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2017 and 2016

NOTE B -- Summary of significant accounting policies (continued)

Pledges and grants receivable

Unconditional pledges and grants receivable are reported at realizable value, net of estimated uncollectible amounts. The Foundation evaluates the amounts expected to be realized on a regular basis. Any changes in the amounts expected to be received are recorded as increases or decreases in contributions.

Unconditional pledges and grants receivable, expected to be collected later than one year, are reported at fair value, which is determined using the discounted present value of estimated future cash flows. The resulting discount is amortized ratably and is reported as contributions revenue.

Inventory

Inventory is stated at the lower of cost or market, where cost is determined using the first-in, first-out method. Inventory consists primarily of logo merchandise held for resale.

Investments

Investments in all debt and equity securities are stated at fair value and are considered available for sale. Fair value is determined based on quoted market prices. Realized and unrealized gains or losses on investments are recorded in the Statements of Activities in the period that such investments are sold or fluctuations occur.

The Foundation categorizes all investment assets on an individual security basis according to the fair value hierarchy as: Level 1, investment assets with observable inputs that are derived from quoted prices for identical assets or liabilities in an active market; Level 2, quoted prices in non-active markets or in active markets for similar assets or liabilities, inputs other than quoted prices that are observable, and inputs that are not directly observable, but are corroborated by observable market data; or Level 3, unobservable inputs, which cannot be corroborated by external market data.

Property and equipment

Property and equipment are recorded at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Depreciation is computed primarily on a straight-line basis over their estimated useful lives ranging from five to thirty-nine years. The Foundation generally capitalizes property and equipment with an original cost in excess of \$4,000.

OKIZU FOUNDATION

NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2017 and 2016

NOTE B -- Summary of significant accounting policies (continued)

Net assets

The financial activities of the Foundation are classified into one of three classes of net assets:

Unrestricted: Those net assets and activities which present the portion of expendable funds available to support operations. A portion of these net assets may be designated by the Board of Directors for specific purposes.

Temporarily restricted: Those net assets and activities which are donor-restricted for: (a) support of specific operating activities; (b) investment for a specified term; (c) use in a specified future period; or (d) acquisition of long-lived assets.

Permanently restricted: Those net assets and activities which are permanently donor-restricted for holdings of: (a) assets donated with stipulations that they be preserved and not sold; or (b) assets donated with stipulations that they be invested to provide a permanent source of income. The Foundation has no permanently restricted net assets at December 31, 2017 and 2016.

Revenue and support recognition

The Foundation records contributions when the donor makes an unconditional promise to give. Donor-restricted contributions are reported as increases in temporarily restricted net assets. Temporarily restricted net assets are reclassified to unrestricted net assets when restrictions are satisfied. Conditional contributions are recognized when conditions are substantially met. Donor-restricted contributions that are received and their restrictions met in the same fiscal year are reported as unrestricted contributions. Revenue from donated auction items is recognized when sold, and sales proceeds are included in special events revenue.

Income taxes

The Foundation is a nonprofit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and under Section 23701d of the California Revenue and Taxation Code. Therefore, no provision for federal or California income tax is reflected in the financial statements.

The Foundation recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. The Foundation does not believe its financial statements include any uncertain tax positions.

The Foundation's returns are subject to examination by federal and state taxing authorities, generally for three years and four years, respectively, after they are filed.

OKIZU FOUNDATION

NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2017 and 2016

NOTE B -- Summary of significant accounting policies (continued)

Functional allocation of expenses

The costs of providing the program services and supporting activities of the Foundation are reported on the Statements of Functional Expenses. Expenses that can be directly identified with a specific function are allocated directly to that function. Expenses that cannot be directly identified with a specific function are allocated among the program services and supporting activities based on allocation methods and estimates made by the Foundation's management and approved by the Board of Directors.

Contributed goods and services

Contributions of goods and donated use of facilities are recognized at fair value when received. Contributions of services are recognized at fair value when received if such services create or enhance nonfinancial assets, or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not donated.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain reclassifications have been made to the financial statements for the year ended December 31, 2016, to conform to the year ended December 31, 2017 financial statements presentation. Such reclassifications have no effect on net assets as previously reported.

NOTE C -- Pledges and grants receivable

Pledges and grants receivable consist of the following at December 31:

	<u>2017</u>	<u>2016</u>
Due within one year	\$ 291,120	\$ 235,000
Due in one to five years	<u>235,000</u>	<u>450,000</u>
Pledges and grants receivable	<u>\$ 526,120</u>	<u>\$ 685,000</u>

The Foundation's management believes that all pledges and grants receivable are collectible and, accordingly, no allowance for uncollectible pledges and grants has been provided.

OKIZU FOUNDATION

NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2017 and 2016

NOTE C -- Pledges and grants receivable (continued)

The Foundation had \$225,000 of conditional promises at December 31, 2017 and 2016, representing a challenge pledge that would pay off the Foundation's debt if other support is raised to pay down the debt to the level of the challenge pledge.

NOTE D -- Investments

The Foundation has categorized all investment assets on an individual security basis according to the fair value hierarchy as Level 1.

Investments consist of mutual funds stated at fair value of \$46,154 and \$45,307 at December 31, 2017 and 2016, respectively.

NOTE E -- Property and equipment

Property and equipment consist of the following at December 31:

	<u>2017</u>	<u>2016</u>
Buildings and improvements	\$ 8,217,509	\$ 8,217,510
Land	1,083,600	1,083,600
Boat house	760,153	760,153
Furniture and fixtures	150,038	150,038
Transportation equipment	104,561	104,561
Equipment	96,538	76,618
Construction in progress	<u>10,000</u>	<u>-</u>
	10,422,399	10,392,480
Less accumulated depreciation	<u>(4,156,659)</u>	<u>(3,918,972)</u>
Property and equipment, net	<u>\$ 6,265,740</u>	<u>\$ 6,473,508</u>

Depreciation expense for the years ended December 31, 2017 and 2016, was \$237,687 and \$238,842, respectively.

NOTE F -- Line of credit

The Foundation has a \$300,000 variable rate revolving line of credit established with Presidio Bank, expiring on November 23, 2021. The interest on borrowings is computed at the bank's prime lending rate of 3.50% at December 31, 2017 and 2016. Interest is payable monthly and the principal is due at maturity unless renewed. The balance outstanding on this line of credit was \$0 at December 31, 2017 and 2016. The line is secured by a deed of trust and is guaranteed by two board members.

OKIZU FOUNDATION

NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2017 and 2016

NOTE G -- Note payable

Notes payable consist of the following at December 31:

	<u>2017</u>	<u>2016</u>
Variable rate note payable with Presidio Bank with final payment due on November 23, 2026. The note bears interest at a fixed rate of 4.13% per annum for the first 60 months, with a fixed monthly payment of \$6,912, which includes interest and principal. The remaining monthly payments beginning in December 2021 will be calculated using an adjusted rate published at that time.	\$ <u>1,043,256</u>	\$ <u>1,411,134</u>

Future maturities of note payable are as follows:

<u>Years Ending December 31,</u>	
2018	\$ 40,798
2019	42,340
2020	44,122
2021	45,986
2022	48,172
Thereafter	<u>821,838</u>
	\$ <u>1,043,256</u>

From time to time, the Foundation makes additional principal payments as approved by the Board of Directors.

NOTE H -- Unrestricted net assets - designated

The following unrestricted net assets have been designated by the Board of Directors for investments in property and equipment and operating reserve for the years ended December 31:

	<u>2017</u>	<u>2016</u>
Property and equipment, net (Note E)	\$ 6,265,740	\$ 6,473,508
Less related borrowings (Note G)	<u>(1,043,256)</u>	<u>(1,411,134)</u>
Designated - property and equipment, net of related debt	5,222,484	5,062,374
Designated - operating reserve	<u>340,950</u>	<u>145,179</u>
Total unrestricted net assets - designated	\$ <u>5,563,434</u>	\$ <u>5,207,553</u>

OKIZU FOUNDATION

NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2017 and 2016

NOTE I -- Special events revenue, net

Revenue from special events consisted of the following for the years ended December 31:

	<u>2017</u>	<u>2016</u>
Art Inspiring Hope Gala	\$ 784,278	\$ 819,059
Sacramento dinner	149,508	107,411
Lobsterfest dinner	-	73,693
Okizu Crush	75,093	-
Other special events	<u>44,111</u>	<u>103,164</u>
	1,052,990	1,103,327
Less costs of direct benefits to donors	<u>(523,174)</u>	<u>(452,879)</u>
Special events revenue, net	<u>\$ 529,816</u>	<u>\$ 650,448</u>

Revenue from special events includes amounts for tickets sold, contributions raised during the event and proceeds from the sale of donated auction items. Revenue from one event, net of event costs directly benefiting donors, comprised 14% of total revenue and support for the years ended December 31, 2017 and 2016.

NOTE J -- Contributed goods and services

Contributed medical services valued at \$74,744 and \$85,387 were recorded for the years ended December 31, 2017 and 2016, respectively. The Foundation also recognized \$33,645 and \$32,774 for donated use of facilities and professional services for the Art Inspiring Hope Gala for the years ended December 31, 2017 and 2016, respectively.

Notable volunteer time adds considerably to the services provided by the Foundation. In addition to the volunteer time that requires recognition in the financial statements, approximately 80,000 and 76,000 hours were contributed by more than 700 volunteers conducting 22 peer support and other programs at Camp Okizu during the years ended December 31, 2017 and 2016, respectively. These were lifeguards, ropes course helpers, archery and fishing instructors, arts and craft directors, dishwashers and kitchen workers, counselors, unit leaders and administrative assistants.

OKIZU FOUNDATION

NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2017 and 2016

NOTE K -- Lease obligations

The Foundation leased an office space in Novato, California under a noncancelable lease agreement that expired on March 31, 2017. On May 1, 2017, the Foundation moved into a new office space in Novato under a noncancelable lease agreement expiring on April 30, 2020 with an option to extend the lease for an additional three year term with rent payment renegotiated to be at fair market value at the time. The new lease provides for monthly payments of \$3,609 plus share of common expenses.

Future minimum rental payments are as follows:

<u>Years Ending December 31,</u>	
2018	\$ 43,306
2019	43,306
2020	<u>14,435</u>
	<u>\$ 101,047</u>

The Foundation also rented a storage space on a month-to-month basis during 2017 and 2016. Rent expense was \$54,919 and \$50,292 for the years ended December 31, 2017 and 2016, respectively.

NOTE L -- Retirement plan

The Foundation maintains a defined contribution 403(b) retirement plan for all employees. Employees are eligible to make elective contributions following the date of hire up to the maximum allowed by the Internal Revenue Code. The Foundation does not contribute to the plan.

NOTE M -- Subsequent events

The date to which events occurring after December 31, 2017 have been evaluated for possible adjustments to the financial statements or disclosure is August 20, 2018, which is the date on which the financial statements were available to be issued.