MANOA HERITAGE CENTER

FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2016
With Prior Year Comparative Information
And Independent Auditor's Report

CW Associates
A Hawaii Certified Public Accounting Corporation

INDEPENDENT AUDITOR'S REPORT

Manoa Heritage Center:

Report on the Financial Statements

We have audited the accompanying financial statements of Manoa Heritage Center (Center), a nonprofit Hawaii corporation, which comprise the statement of financial position as of December 31, 2016, 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 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 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.

Topa Financial Center
700 Bishop Street, Suite 1040
Honolulu, Hawaii 96813
Telephone (808) 531-1040
Facsimile (808) 531-1041
www.cwassociatescpas.com

Opinion on the Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Center as of December 31, 2016, and the changes in its net assets and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Report on Prior Year Comparative Information

We have previously audited the financial statements of the Center as of and for the year ended December 31, 2015, and our report dated February 23, 2017, expressed an unmodified opinion on those audited financial statements. In our opinion, the accompanying prior year comparative information is consistent, in all material respects, with the audited financial statements from which it has been derived.

CW Associates CPAs

Honolulu, Hawaii
September 19, 2017

MANOA HERITAGE CENTER

STATEMENT OF FINANCIAL POSITION

As of December 31, 2016
(With Prior Year Comparative Information)

	2016	2015
ASSETS		
CURRENT ASSETS		
Operating cash	$ 259,582	$ 357,225
Accounts receivable – net	25,337	-
Inventory of books	65,425	-
Prepaid expenses	5,987	2,291
Total current assets	356,331	359,516
DESIGNATED FOR CAPITAL CAMPAIGN		
Cash designated for capital campaign	2,174,206	1,463,724
Pledges receivable – net, designated for capital campaign	200,000	887,500
Total designated for capital campaign	2,374,206	2,351,224
PROPERTY AND EQUIPMENT – Net	1,473,728	232,512
TOTAL ASSETS	$4,204,265	$2,943,252
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$ 53,150	$ -
Accrued liabilities	303	-
Total current liabilities	53,453	-
NET ASSETS		
Unrestricted net assets		
Unrestricted – undesignated	(136,193)	60,332
Unrestricted – invested in property and equipment	1,473,728	232,512
Total unrestricted net assets	1,337,535	292,844
Temporarily restricted net assets	2,813,277	2,650,408
Total net assets	4,150,812	2,943,252
TOTAL LIABILITIES AND NET ASSETS	$4,204,265	$2,943,252

See accompanying notes to the financial statements.

MANOA HERITAGE CENTER

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2016
(With Prior Year Comparative Information)

	2016	2015
CHANGES IN UNRESTRICTED NET ASSETS		
Revenue and support		
Unrestricted contributions	$ 388,064	$ 394,267
Sales of books – net	5,150	-
Program service fees	540	741
Interest income	219	62
Total revenue and support	393,973	395,070
Expenses		
Program services	365,029	120,217
Fundraising	110,521	89,999
Management and general	81,434	43,279
Total expenses	556,984	253,495
Revenue and support less expenses	(163,011)	141,575
Net assets released from capital campaign restrictions	1,207,702	63,687
Increase in unrestricted net assets	1,044,691	205,262
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Temporarily restricted contributions	1,370,571	969,958
Net assets released from temporary restrictions	(1,207,702)	(63,687)
Increase in temporarily restricted net assets	162,869	906,271
INCREASE IN NET ASSETS	1,207,560	1,111,533
NET ASSETS – Beginning of year	2,943,252	1,831,719
NET ASSETS – End of year	$4,150,812	$2,943,252

See accompanying notes to the financial statements.

MANOA HERITAGE CENTER

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2016
(With Prior Year Comparative Information)

	Program Services	Fund-Raising	Management and General	2016 Totals	2015 Totals
Contributions to Kualii Foundation	$155,000	$ -	$ -	$155,000	$ -
Salaries and related costs	105,854	21,457	15,735	143,046	73,019
Professional fees	28,230	68,549	41,474	138,253	94,029
Office and administration	14,113	4,350	24,225	42,688	32,681
Education and program	36,145	-	-	36,145	18,585
Utilities and maintenance	21,610	-	-	21,610	20,298
Miscellaneous	4,077	16,165	-	20,242	14,883
Total expenses	$365,029	$110,521	$81,434	$556,984	$253,495

See accompanying notes to the financial statements.

MANOA HERITAGE CENTER

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2016
(With Prior Year Comparative Information)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	$1,207,560	$1,111,533
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Increase in cash designated for capital campaign	(710,482)	(785,355)
(Increase) decrease in pledges receivable – net, designated for capital campaign	687,500	(47,250)
Depreciation	3,528	884
(Increase) decrease in:		
Accounts receivable – net	(25,337)	-
Inventory of books	(65,425)	-
Prepaid expenses	(3,696)	(224)
Increase (decrease) in:		
Accounts payable	53,150	(509)
Accrued liabilities	303	(27)
Net cash provided by operating activities	1,147,101	279,052
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(1,244,744)	(63,687)
Net cash used by investing activities	(1,244,744)	(63,687)
NET INCREASE (DECREASE) IN CASH	(97,643)	215,365
OPERATING CASH – Beginning of year	357,225	141,860
OPERATING CASH – End of year	$ 259,582	$ 357,225

See accompanying notes to the financial statements.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Activity

Manoa Heritage Center (Center) is a nonprofit corporation organized under the laws of the State of Hawaii on April 17, 1996, primarily to study and disseminate information about the cultural heritage of Hawaii in general, and Manoa Valley in particular; to operate a historic property museum; to preserve and interpret native Hawaii sites in the Manoa Valley; and to make them available to the public. Kualii Foundation (Foundation) is a nonprofit corporation organized under the laws of the State of Hawaii on April 17, 1996, primarily for the same purpose. The Center and Foundation are also related by common management and governance.

Together, the Center and Foundation promote the natural and cultural heritage of Hawaii, the *Heiau* (Hawaiian temple) on its site in Manoa Valley, the natural gardens of Kualii (the historic residence of Sam and Mary Cooke), Kualii itself, and Manoa Valley as a whole. The Center achieves its purpose by providing guided tours of the grounds, Kualii, and the *Heiau*, and educating visitors and school groups on the history of Hawaii and Manoa Valley. The Foundation achieves its purpose by providing monetary support to the Center and maintaining the museum land and buildings on which the Center is located.

Basis of Accounting

The Center reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets (none in 2016 and 2015). Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted depending on the existence and/or nature of any donor restrictions. Support is reported when pledged and is considered to be available for unrestricted use unless restricted by the donor. Donor restricted support is reported when pledged as an increase in temporarily restricted or permanently restricted net assets, depending on the nature of the restriction. Pledges due in more than one year are reflected at the present value of estimated future cash flows using discount rates in effect at the date of the pledge. When a temporary restriction is satisfied or expires, temporarily restricted net assets are reclassified to unrestricted net assets. Revenue from sales of books is recognized upon the sale of the books and is reported net of the cost of the books sold of $53,661 and $0 for the years ended December 31, 2016 and 2015, respectively. Other revenue is recognized when earned. Expenses are recognized when the related liability is incurred. The Center allocates its expenses on a functional basis among its various programs and supporting services based on estimates by management. Expenses that can be identified with a specific program or supporting service are charged directly to the program or supporting service. Other expenses that are common to several functions are allocated by various bases.

Donated services are recognized as contributions if the services create or enhance nonfinancial assets, or require specialized skills that are performed by people with those skills and would otherwise be purchased by the Center. The value of unpaid volunteers who have made significant contributions of their time to the Center is not reflected in the financial statements because it does not meet the criteria for recognition.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of financial statements in accordance with such 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 the reported amounts of changes in net assets during the reporting period. Actual results could differ from those estimates, and it is at least reasonably possible that such estimates may change within the near term.

Concentrations of Credit Risk

Financial instruments that potentially subject the Center to credit risk include operating cash, cash designated for capital campaign, accounts receivable, and pledges receivable. Operating cash and cash designated for capital campaign on deposit with financial institutions exceeded the related federal deposit insurance by approximately $2,144,000 and $971,000 at December 31, 2016 and 2015, respectively. Accounts and pledges receivable, which have been adjusted for all known doubtful accounts (none at December 31, 2016 and 2015) are determined to be collectible or uncollectible based on an assessment by management of the facts and circumstances related to the individual accounts.

Inventory of Books

The inventory of books consists of copies of the book *Paintings, Prints, and Drawings of Hawaii from the Sam and Mary Cooke Collection*, which are held for sale to raise public awareness. Books remaining in inventory at year-end are stated at the lower of cost or net realizable value.

Property and Equipment

Property and equipment consists of office furniture, fixtures, and equipment stated at cost or, if contributed, at estimated fair market value at the date of contribution. Depreciation is provided using the straight-line method over estimated useful lives of five years. Property and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amounts may not be recoverable. Repairs and maintenance are expensed as incurred. Major improvements are capitalized.

Employee Benefit Plans

The Center sponsors a defined contribution SIMPLE IRA plan covering substantially all of its employees to which it contributes up to 3% of their annual gross salaries in accordance with the plan document and Internal Revenue Code Section 408(p). The Center's contributions under this plan amounted to $3,080 and $2,015 for the years ended December 31, 2016 and 2015, respectively.

Hawaii General Excise Tax

The State of Hawaii imposes a general excise tax of 4% on certain gross receipts within Hawaii, plus an additional 0.5% on such gross receipts within the City and County of Honolulu. The gross receipts of the Center for the year ended December 31, 2016 and 2015 were exempt from the Hawaii general excise tax.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

The Center and Foundation are exempt from income tax under Section 501(c)(3) of the U.S. Internal Revenue Code and are not private foundations. Accordingly, qualifying contributions to the Center or Foundation are tax deductible.

Accounting principles generally accepted in the United States of America require uncertain tax positions to be recognized in the financial statements if they are more likely than not to fail upon regulatory examination. Management has evaluated the Center's tax positions as of and for the years ended December 31, 2016 and 2015 by reviewing its income tax returns and conferring with its tax advisors, and determined that it had no uncertain tax positions required to be reported in accordance with such generally accepted accounting principles. The Center is subject to routine audits by taxing jurisdictions; however, there are currently no audits in progress for any open tax periods.

NOTE B – PROPERTY AND EQUIPMENT

At December 31, 2016 and 2015, property and equipment consisted of the following:

	2016	2015
Office furniture, fixtures, and equipment	$ 62,106	$ 25,064
Construction in progress	1,437,752	230,050
Total	1,499,858	255,114
Accumulated depreciation	(26,130)	(22,602)
Property and equipment – net	$1,473,728	$232,512

In October 2015, the Center entered into a contract for approximately $3.56 million for the construction of an on-site Visitor Education Center and other renovations to the property, of which approximately $1.11 million had been completed and paid as of December 31, 2016. The construction and renovation project is expected to be completed during the year ending December 31, 2017.

NOTE C – TEMPORARILY RESTRICTED NET ASSETS

At December 31, 2016 and 2015, temporarily restricted net assets consisted of the following:

	2016	2015
Temporarily restricted for:		
Manoa Heritage Center capital campaign	$2,792,309	$2,650,408
Marisla Fund grant for plant life and place-based education	10,968	-
Pettus Foundation grant for transportation	10,000	-
Total temporarily restricted net assets	$2,813,277	$2,650,408

NOTE D – CONTINGENCIES

The Center may be subject to legal proceedings, claims, or litigation arising in the ordinary course of business for which it may seek the advice of legal counsel. Management estimates that the cost to resolve such matters, if any, would not be material to the financial statements. However, it is at least reasonably possible that such estimates may change within the near term.

The Center operates in the State of Hawaii. National and international events can have severe, adverse effects on economic conditions in Hawaii. The effects on the financial statements of the Center from such changes in economic conditions, if any, are not presently determinable.

NOTE E – FINANCIAL STATEMENT PRESENTATION

The financial statements include prior year comparative information that is not in sufficient detail to constitute a complete presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Center's financial statements as of and for the year ended December 31, 2015, from which the information was derived.

Certain amounts in the prior year comparative information have been reclassified to conform to the current year presentation.

NOTE F – SUBSEQUENT EVENTS

Management has evaluated subsequent events through the date of the independent auditor's report, which is the date the financial statements were available to be issued, and determined that the Center did not have any subsequent events requiring adjustment to the financial statements or disclosure in the notes to the financial statements.