

**MANOA HERITAGE CENTER
AND KUALII FOUNDATION**

**CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended December 31, 2018 and 2017
And Independent Auditor's Report**



CW Associates

A Hawaii Certified Public Accounting Corporation

INDEPENDENT AUDITOR'S REPORT

Manoa Heritage Center and Kualii Foundation:

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Manoa Heritage Center (Center) and Kualii Foundation (Foundation), nonprofit Hawaii corporations, which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the Consolidated Financial Statements

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Center and Foundation as of December 31, 2018 and 2017, and the changes in their net assets and their cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note A to the consolidated financial statements, during the year ended December 31, 2018, the Center and Foundation adopted Accounting Standards Update 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.

CW ASSOCIATES, CPAs

Honolulu, Hawaii

October 17, 2019

MANOA HERITAGE CENTER AND KUALII FOUNDATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
CURRENT ASSETS		
Operating cash	\$ 475,573	\$ 353,889
Accounts receivable – net	108,999	40,677
Inventory of books	43,481	47,535
Prepaid expenses	609	2,085
Total current assets	<u>628,662</u>	<u>444,186</u>
INVESTMENTS IN MARKETABLE SECURITIES	<u>10,552,659</u>	<u>10,998,779</u>
PROPERTY AND EQUIPMENT – Net	<u>6,408,570</u>	<u>6,211,840</u>
DESIGNATED FOR CAPITAL CAMPAIGN		
Cash designated for capital campaign	9,383	456,509
Pledges receivable – net, designated for capital campaign	100,000	125,000
Total designated for capital campaign	<u>109,383</u>	<u>581,509</u>
HISTORICAL COLLECTION (See Note A)	<u>-</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 17,699,274</u>	<u>\$ 18,236,314</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 17,841	\$ 79,876
Accrued liabilities	13,887	10,544
Total current liabilities	<u>31,728</u>	<u>90,420</u>
NET ASSETS		
Net assets without donor restrictions	15,890,369	16,518,014
Net assets with donor restrictions	1,777,177	1,627,880
Total net assets	<u>17,667,546</u>	<u>18,145,894</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 17,699,274</u>	<u>\$ 18,236,314</u>

See accompanying notes to the consolidated financial statements.

MANOA HERITAGE CENTER AND KUALII FOUNDATION

CONSOLIDATED STATEMENTS OF ACTIVITIES

For the Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
Revenue and support		
Investment income (loss)	\$ (573,051)	\$ 1,386,823
Contributions without donor restrictions	392,147	280,729
Net assets released from donor restrictions for programs	36,494	-
Sales of books	6,398	19,868
Other revenue and support	6,175	1,532
Total revenue and support	<u>(131,837)</u>	<u>1,688,952</u>
Expenses		
Program services	692,679	418,379
Management and general	101,367	80,289
Fundraising	162,962	160,634
Total expenses	<u>957,008</u>	<u>659,302</u>
Revenue and support less expenses	(1,088,845)	1,029,650
Net assets released from donor restrictions for capital campaign	461,200	1,970,351
Increase (decrease) in net assets without donor restrictions	<u>(627,645)</u>	<u>3,000,001</u>
CHANGES IN ASSETS WITH DONOR RESTRICTIONS		
Net assets with donor restrictions for capital campaign		
Contributions with donor restrictions	217,837	-
Net assets released from donor restrictions	(461,200)	(1,970,351)
Decrease in net assets with donor restriction for capital campaign	<u>(243,363)</u>	<u>(1,970,351)</u>
Net assets with donor restrictions for endowment		
Contributions with donor restrictions	389,154	247,575
Increase in net assets with donor restrictions for endowments	<u>389,154</u>	<u>247,575</u>
Net assets with donor restrictions for programs		
Contributions with donor restrictions	40,000	377,379
Net assets released from donor restrictions	(36,494)	-
Increase in net assets with donor restriction for programs	<u>3,506</u>	<u>377,379</u>
Increase (decrease) in net assets with donor restrictions	<u>149,297</u>	<u>(1,345,397)</u>
INCREASE (DECREASE) IN NET ASSETS	(478,348)	1,654,604
NET ASSETS – Beginning of year	<u>18,145,894</u>	<u>16,491,290</u>
NET ASSETS – End of year	<u>\$17,667,546</u>	<u>\$18,145,894</u>

See accompanying notes to the consolidated financial statements.

MANOA HERITAGE CENTER AND KUALII FOUNDATION
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

For the Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Program services		
Salaries and related costs	\$274,160	\$130,940
Professional fees	146,934	152,509
Depreciation	105,242	58,946
Office and administrative	66,231	37,674
Occupancy	64,127	13,210
Education and program	35,985	25,100
Total program services	<u>692,679</u>	<u>418,379</u>
Management and general		
Professional fees	41,765	15,180
Office and administrative	33,488	11,807
Depreciation	14,032	8,123
Salaries and related costs	9,791	41,039
Occupancy	2,291	4,140
Total management and general	<u>101,367</u>	<u>80,289</u>
Fundraising		
Professional fees	64,044	75,378
Salaries and related costs	42,430	53,734
Office and administrative	25,515	15,463
Depreciation	21,049	10,639
Occupancy	9,924	5,420
Total fundraising	<u>162,962</u>	<u>160,634</u>
Total expenses	<u>\$957,008</u>	<u>\$659,302</u>

See accompanying notes to the consolidated financial statements.

MANOA HERITAGE CENTER AND KUALII FOUNDATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ (478,348)	\$ 1,654,604
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities		
Decrease in cash designated for capital campaign	447,126	1,717,697
Decrease in pledges receivable – net, designated for capital campaign	25,000	75,000
Unrealized (gains) losses from holding marketable securities	732,171	(1,142,736)
Realized (gains) losses from sales of marketable securities	74,453	(10,998)
Depreciation	140,323	77,708
(Increase) decrease in		
Accounts receivable – net	(68,322)	(15,340)
Inventory of books	4,054	17,890
Prepaid expenses	1,476	3,903
Increase (decrease) in		
Accounts payable	(62,035)	26,726
Accrued liabilities	3,343	10,241
Net cash provided by operating activities	<u>819,241</u>	<u>2,414,695</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(337,053)	(1,943,336)
Sales of marketable securities	8,837,820	5,686,013
Purchases of marketable securities	<u>(9,198,324)</u>	<u>(6,386,078)</u>
Net cash used by investing activities	<u>(697,557)</u>	<u>(2,643,401)</u>
NET INCREASE (DECREASE) IN CASH	121,684	(228,706)
OPERATING CASH – Beginning of year	<u>353,889</u>	<u>582,595</u>
OPERATING CASH – End of year	<u>\$ 475,573</u>	<u>\$ 353,889</u>

See accompanying notes to the consolidated financial Statements.

MANOA HERITAGE CENTER AND KUALII FOUNDATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2018 and 2017

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 is the sole corporate member of the Foundation. The Center and Foundation are also related by common management and governance. The accompanying consolidated financial statements include the accounts of both the Center and Foundation, except that significant intercompany balances and transactions have been eliminated in consolidation.

Together, the Center and Foundation promote the natural and cultural heritage of Hawaii, the *Heiau* (Hawaiian temple) 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 and Foundation report information regarding their financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. Contributions received are recorded as increases to net assets without donor restrictions or net assets with donor restrictions 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 net assets with donor restrictions. 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 donor imposed restriction is satisfied or expires, net assets with donor restrictions are reclassified to net assets without donor restrictions. 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 \$6,398 and \$20,069 for the years ended December 31, 2018 and 2017, respectively. Other revenue and support is recognized when earned. Expenses are recognized when the related liability is incurred.

The Center and Foundation allocate their expenses on a functional basis among their 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. Expenses that are common to several functions are allocated by square footage or employee time.

MANOA HERITAGE CENTER AND KUALII FOUNDATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2018 and 2017

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (continued)

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. The value of unpaid volunteers who have made significant contributions of their time is not reflected in the consolidated financial statements because it does not meet the criteria for recognition.

Use of Estimates

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of consolidated 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 consolidated 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 reasonably possible that such estimates may change within the near term.

Concentrations of Credit Risk

Financial instruments that potentially subject the Center and Foundation to credit risk include operating cash, accounts receivable, investments in marketable securities, cash designated for capital campaign, and pledges receivable. Operating cash and cash designated for capital campaign on deposit with financial institutions exceeded the related federal deposit insurance by approximately \$165,000 and \$452,000 at December 31, 2018 and 2017, respectively. Accounts and pledges receivable, which have been adjusted for all known doubtful accounts (none at December 31, 2018 and 2017) are determined to be collectible or uncollectible based on an assessment by management of the facts and circumstances related to the individual accounts. Investments in marketable securities are fully insured by federal and private insurance, as represented by the custodian. Future changes in market prices may make such investments less valuable.

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.

Investments in Marketable Securities

Investments in marketable securities are stated at fair value. Net realized and unrealized gains and losses, determined using the specific identification method, are included in investment income (loss).

MANOA HERITAGE CENTER AND KUALII FOUNDATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2018 and 2017

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment

Property and equipment is 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 15 to 30 years for buildings and improvements, 30 years for the *heiau* restoration, and five years for furniture, fixtures, and equipment. 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.

Historical Collection

The historical collection consists of documents and artifacts held for educational, research, and curatorial purposes. The collection is continuously cataloged, preserved, and cared for. The items in the collection are not recognized in the consolidated financial statements because they have no alternative uses. Purchases of collection items are recorded as decreases in net assets without donor restrictions when the items are acquired or as net asset with donor restrictions if they are purchased with donor-restricted funds. Contributed collection items are not reflected in the consolidated financial statements. Proceeds, if any, from the disposition of collection items are reflected as increases in the appropriate net asset classes.

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. Substantially all of the gross receipts of the Center and Foundation for the years ended December 31, 2018 and 2017 were exempt from the Hawaii general excise tax.

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 consolidated financial statements if they are more likely than not to fail upon regulatory examination. Management has evaluated the tax positions of the Center and Foundation as of and for the years ended December 31, 2018 and 2017 by reviewing their income tax returns and conferring with their tax advisors, and determined that they had no uncertain tax positions required to be reported in accordance with such generally accepted accounting principles. The Center and Foundation are subject to routine audits by taxing jurisdictions; however, there are currently no audits in progress for any open tax periods.

MANOA HERITAGE CENTER AND KUALII FOUNDATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2018 and 2017

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of New Accounting Pronouncement

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Under this ASU, there are two classes of net assets – net assets with donor restrictions and net assets without donor restrictions. This ASU also requires qualitative information on how the organization manages its liquid assets and associated liquidity risks; and information on the availability of its assets to meet cash needs for general expenditures within one year. The Center and Foundation implemented this ASU in the year ended December 31, 2018.

NOTE B – LIQUIDITY

The Center and Foundation manages their liquid resources by focusing on fundraising efforts to ensure that they have adequate contributions and grants to fund the programs that it conducts. The Center and Foundation prepare annual budgets and monitor actual financial results each month to ensure that they control costs and remain liquid. They effectively manage their grants and contributions and do not have any short-term borrowing needs to fund operating costs.

The following reflects the Center and Foundation's consolidated financial assets as of December 31, 2018 and 2017 available to meet cash needs for general expenditures within one year:

	<u>2018</u>	<u>2017</u>
Operating cash	\$ 475,573	\$ 353,889
Accounts receivable – net	108,999	40,677
Investments in marketable securities	<u>10,552,659</u>	<u>10,998,779</u>
Total financial assets	11,137,231	11,393,345
Total net assets with donor restrictions	<u>(1,777,177)</u>	<u>(1,627,880)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$9,360,054</u>	<u>\$9,765,465</u>

MANOA HERITAGE CENTER AND KUALII FOUNDATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2018 and 2017

NOTE C – INVESTMENTS IN MARKETABLE SECURITIES

At December 31, 2018 and 2017, investments in marketable securities consisted of the following:

	2018		2017	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Common stock and other investments	\$ 8,572,842	\$ 10,369,951	\$ 8,130,416	\$ 10,659,696
Money market funds	<u>182,708</u>	<u>182,708</u>	<u>339,083</u>	<u>339,083</u>
Total investment in marketable securities	<u>\$ 8,755,550</u>	<u>\$ 10,552,659</u>	<u>\$ 8,469,499</u>	<u>\$ 10,998,779</u>

Net investment income (loss) for the years ended December 31, 2018 and 2017 consisted of the following:

	<u>2018</u>	<u>2017</u>
Unrealized gains (losses) from holding marketable securities	\$ (732,171)	\$ 1,142,736
Realized gains (losses) from sales of marketable securities	(74,453)	10,998
Interest and dividend income	290,923	309,815
Investment fees	<u>(57,350)</u>	<u>(76,726)</u>
Net investment income (loss)	<u>\$ (573,051)</u>	<u>\$ 1,386,823</u>

NOTE D – FAIR VALUE MEASUREMENTS

The established framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to the valuation methodology used to measure fair value. There are three levels of inputs to the valuation methodology. Level 1 inputs consist of unadjusted quoted prices for identical assets or liabilities in active markets that the entity has the ability to access. Level 2 inputs 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, and 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 are unobservable and significant to the fair value measurement. The fair value measurement level of an asset or liability within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation methodologies used need to maximize the use of observable inputs and minimize the use of unobservable inputs. The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values.

MANOA HERITAGE CENTER AND KUALII FOUNDATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2018 and 2017

NOTE D – FAIR VALUE MEASUREMENTS (Continued)

The following sets forth by level, within the fair value hierarchy, the Foundation's investments in marketable securities at fair value as of December 31, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Common stock and other investments				
Technology	\$ 2,196,184	\$ -	\$ -	\$ 2,196,184
Mutual funds	1,369,638	-	-	1,369,638
Energy	1,304,454	-	-	1,304,454
Consumer defensive	968,316	-	-	968,316
Consumer cyclical	909,862	-	-	909,862
Financial services	889,185	-	-	889,185
Other investments	806,472	-	-	806,472
Healthcare	584,970	-	-	584,970
Communication	504,738	-	-	504,738
Government securities	501,932	-	-	501,932
Industrials	334,200	-	-	334,200
Total common stock and other investments	10,369,951	-	-	10,369,951
Money market funds	182,708	-	-	182,708
Total investments at fair value	<u>\$ 10,552,659</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,552,659</u>

The following sets forth by level, within the fair value hierarchy, the Foundation's investments in marketable securities at fair value as of December 31, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Common stock and other investments				
Energy	\$ 2,732,101	\$ -	\$ -	\$ 2,732,101
Technology	2,252,164	-	-	2,252,164
Consumer defensive	994,160	-	-	994,160
Other investments	915,208	-	-	915,208
Financial services	769,782	-	-	769,782
Industrials	669,349	-	-	669,349
Consumer cyclical	620,977	-	-	620,977
Communication	619,448	-	-	619,448
Healthcare	587,909	-	-	587,909
Emerging markets bonds	498,598	-	-	498,598
Total common stock and other investments	10,659,696	-	-	10,659,696
Money market funds	339,083	-	-	339,083
Total investments at fair value	<u>\$ 10,998,779</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,998,779</u>

MANOA HERITAGE CENTER AND KUALII FOUNDATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2018 and 2017

NOTE E – PROPERTY AND EQUIPMENT

At December 31, 2018 and 2017, property and equipment consisted of the following:

	<u>2018</u>	<u>2017</u>
Land	\$ 1,563,888	\$ 1,563,888
Buildings and improvements	4,915,242	1,200,508
Heiau restoration	990,800	990,800
Furniture, fixtures, and equipment	68,465	68,465
Construction in progress	-	3,377,681
Total	<u>7,538,395</u>	<u>7,201,342</u>
Accumulated depreciation	<u>(1,129,825)</u>	<u>(989,502)</u>
Property and equipment – net	<u>\$ 6,408,570</u>	<u>\$ 6,211,840</u>

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. The construction and renovation project was completed and placed in service in April 2018.

NOTE F – NET ASSETS WITHOUT DONOR RESTRICTIONS

At December 31, 2018 and 2017, net assets without donor restrictions consisted of the following:

	<u>2018</u>	<u>2017</u>
Net assets without designation	\$ 8,731,799	\$ 9,556,174
Net assets invested in property and equipment	6,408,570	6,211,840
Net assets designated by Board of Directors for endowment fund	<u>750,000</u>	<u>750,000</u>
Total net assets without donor restriction	<u>\$ 15,890,369</u>	<u>\$ 16,518,014</u>

In December 2016, the Foundation designated \$750,000 of net assets without donor restrictions as the Sam Cooke Quasi-Endowment Fund (Quasi-Endowment) to provide a continuous source of funding for the Center's operations and activities over the long term. The Quasi-Endowment is included in net assets without donor restrictions because it resulted from an internal designation and is not donor-restricted. Accordingly, the Foundation may later designate this amount in the Quasi-Endowment for other purposes. Income from the Quasi-Endowment will be considered as net assets without donor restrictions and appropriated for expenditure when earned. There was no income earned on the Quasi-Endowment for the years ended December 31, 2018 and 2017.

MANOA HERITAGE CENTER AND KUALII FOUNDATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2018 and 2017

NOTE G – NET ASSETS WITH DONOR RESTRICTIONS

At December 31, 2018 and 2017, net assets with donor restrictions consisted of the following:

	<u>2018</u>	<u>2017</u>
Net assets with donor restrictions for capital campaign	\$ 961,926	\$ 1,205,289
Net assets restricted for endowments	796,729	407,575
Net assets with donor restrictions for program purposes		
Pettus Foundation grant for transportation	18,522	13,016
NEH Grant	<u>-</u>	<u>2,000</u>
Total net assets with donor restrictions	<u>\$1,777,177</u>	<u>\$1,627,880</u>

In December 2016, the Sam Cooke Endowment Fund (Endowment) was established in the Foundation by way of a contribution from the Center to provide a continuous source of funding for the Center's operations and activities over the long term. Accordingly, income from the Endowment will be considered unrestricted and appropriated for expenditure when earned. The Endowment earned \$7,740 and \$664 in income for the years ended December 31, 2018 and 2017, respectively. The Endowment is included in net assets restricted for endowments.

The Board of Trustees of the Foundation adopted investment policies for its endowments to preserve the endowment principal, to provide for sufficient liquidity and long-term earnings, and to provide for annual spending allocations to support operations. The risk tolerance for the endowments is in the moderate to conservative range.

Accounting principles generally accepted in the United States of America provide guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). An enacted version of UPMIFA became effective in the State of Hawaii on July 1, 2009. The Board of Trustees of the Foundation has interpreted the Act as requiring the preservation of the original gift of donor-restricted endowment funds as net assets with donor restrictions, absent explicit donor stipulations to the contrary. Other donor-restricted gifts are classified as net assets with donor restrictions. From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. At December 31, 2018 and 2017, the Foundation's investments exceeded the related amount of its endowments.

MANOA HERITAGE CENTER AND KUALII FOUNDATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2018 and 2017

NOTE H – 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 \$3,338 and \$2,698 for the years ended December 31, 2018 and 2017, respectively.

NOTE I – CONTINGENCIES

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

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

NOTE J – CONSOLIDATED FINANCIAL STATEMENT PRESENTATION

Certain amounts in the prior year consolidated financial statements have been reclassified to conform to the current year presentation.

NOTE L – SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 17, 2019, which is the date the consolidated financial statements were available to be issued, and determined that the Center and Foundation did not have any subsequent events requiring adjustment to the consolidated financial statements or disclosure in the notes to the consolidated financial statements.
