MANOA HERITAGE CENTER
AND KUALII FOUNDATION

CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended December 31, 2019 and 2018
And Independent Auditor's Report

CW Associates
A Hawaii Certified Public Accounting Corporation

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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, 2019 and 2018, 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.

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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, 2019 and 2018, 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, 2019, the Center and Foundation adopted Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contract with Customers (Topic 606),* ASU No. 2016-18, *Statement of Cash Flows (Topic 230) – Restricted Cash,* and ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made.* Our opinion is not modified with respect to this matter.

CW Associates, CPAs

Honolulu, Hawaii
September 24, 2020

MANOA HERITAGE CENTER AND KUALII FOUNDATION

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of December 31, 2019 and 2018

	2019	2018
ASSETS		
CURRENT ASSETS		
Operating cash	$ 983,312	$ 475,573
Accounts receivable – net	35,340	108,999
Inventory of books	41,098	43,481
Prepaid expenses	642	609
Total current assets	1,060,392	628,662
INVESTMENTS IN MARKETABLE SECURITIES	14,893,097	10,552,659
PROPERTY AND EQUIPMENT – Net	6,237,242	6,408,570
DESIGNATED FOR CAPITAL CAMPAIGN		
Cash designated for capital campaign	9,383	9,383
Pledges receivable – net, designated for capital campaign	-	100,000
Total designated for capital campaign	9,383	109,383
HISTORICAL COLLECTION (See Note A)	-	-
TOTAL ASSETS	$22,200,114	$17,699,274
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$ 19,778	$ 17,841
Accrued liabilities	25,042	13,887
Total current liabilities	44,820	31,728
NET ASSETS		
Net assets without donor restrictions	18,751,967	15,890,369
Net assets with donor restrictions	3,403,327	1,777,177
Total net assets	22,155,294	17,667,546
TOTAL LIABILITIES AND NET ASSETS	$22,200,114	$17,699,274

See accompanying notes to the consolidated financial statements.

MANOA HERITAGE CENTER AND KUALII FOUNDATION

CONSOLIDATED STATEMENTS OF ACTIVITIES

For the Years Ended December 31, 2019 and 2018

	2019	2018
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
Revenue and support		
Investment income (loss) – net	$ 3,215,545	$ (573,051)
Contributions without donor restrictions	218,360	392,147
Net assets released from donor restrictions for programs	51,737	36,494
Other revenue and support	28,852	6,175
Sales of books – net	6,455	6,398
Total revenue and support	3,520,949	(131,837)
Expenses		
Program services	621,744	692,679
Management and general	103,714	101,367
Fundraising	142,714	162,962
Total expenses	868,172	957,008
Revenue and support less expenses	2,652,777	(1,088,845)
Net assets released from donor restrictions for capital campaign	208,821	461,200
Increase (decrease) in net assets without donor restrictions	2,861,598	(627,645)
CHANGES IN ASSETS WITH DONOR RESTRICTIONS		
Net assets with donor restrictions for capital campaign		
Contributions with donor restrictions	259,523	217,837
Net assets released from donor restrictions	(208,821)	(461,200)
Increase (decrease) in net assets with donor restriction for capital campaign	50,702	(243,363)
Net assets with donor restrictions for endowments		
Contributions with donor restrictions	1,582,185	389,154
Increase in net assets with donor restrictions for endowments	1,582,185	389,154
Net assets with donor restrictions for programs		
Contributions with donor restrictions	45,000	40,000
Net assets released from donor restrictions	(51,737)	(36,494)
Increase (decrease) in net assets with donor restriction for programs	(6,737)	3,506
Increase in net assets with donor restrictions	1,626,150	149,297
INCREASE (DECREASE) IN NET ASSETS	4,487,748	(478,348)
NET ASSETS – Beginning of year	17,667,546	18,145,894
NET ASSETS – End of year	$22,155,294	$17,667,546

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, 2019 and 2018

	2019	2018
Program services		
Salaries and related costs	$275,723	$274,160
Depreciation	128,496	105,242
Professional fees	91,898	146,934
Occupancy	52,163	64,127
Education and program	45,335	35,985
Office and administrative	28,129	66,231
Total program services	621,744	692,679
Management and general		
Professional fees	50,217	41,765
Office and administrative	24,654	33,488
Depreciation	17,133	14,032
Salaries and related costs	9,848	9,791
Occupancy	1,862	2,291
Total management and general	103,714	101,367
Fundraising		
Professional fees	61,014	64,044
Salaries and related costs	42,671	42,430
Depreciation	25,699	21,049
Occupancy	8,073	9,924
Office and administrative	5,257	25,515
Total fundraising	142,714	162,962
Total expenses	$868,172	$957,008

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, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	$ 4,487,748	$ (478,348)
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities		
Decrease in pledges receivable – net, designated for capital campaign	100,000	25,000
Unrealized (gains) losses from holding marketable securities	(2,492,466)	732,171
Realized (gains) losses from sales of marketable securities	(489,575)	74,453
Contributions with donor restrictions for endowments	(1,582,185)	(389,154)
Depreciation	171,328	140,323
(Increase) decrease in		
Accounts receivable – net	73,659	(68,322)
Inventory of books	2,383	4,054
Prepaid expenses	(33)	1,476
Increase (decrease) in		
Accounts payable	1,937	(62,035)
Accrued liabilities	11,155	3,343
Net cash provided (used) by operating activities	283,951	(17,039)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	-	(337,053)
Sales of marketable securities	9,609,227	8,837,820
Purchases of marketable securities	(10,967,624)	(9,198,324)
Net cash used by investing activities	(1,358,397)	(697,557)
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions with donor restrictions for endowments	1,582,185	389,154
Net cash provided by financing activities	1,582,185	389,154
NET INCREASE (DECREASE) IN CASH	507,739	(325,442)
CASH – Beginning of year	484,956	810,398
CASH – End of year	$ 992,695	$ 484,956
SUMMARY OF CASH – End of year		
Operating cash	$ 983,312	$ 475,573
Cash designated for capital campaign	9,383	9,383
CASH – End of year	$ 992,695	$ 484,956

See accompanying notes to the consolidated 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 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.

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.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 $276,000 and $165,000 at December 31, 2019 and 2018, respectively. Accounts and pledges receivable, which have been adjusted for all known doubtful accounts (none at December 31, 2019 and 2018) 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).

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.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Revenue and Expense Recognition

Revenue from performance obligations satisfied at a point in time consists of sales of books – net. Revenue from sources other than performance obligations consists of investment income, contributions without donor restrictions, net assets released from program restrictions, and other revenue and support. See Note H for a disaggregation of revenue. 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 $2,383 and $4,054 for the years ended December 31, 2019 and 2018, respectively. Other revenue and support is recognized when earned. The Center and Foundation recognize contributions when cash, securities, or other assets, an unconditional promise to give; or a notification of a benefit interest is received. Conditional promises to give (none at December 31, 2019 and 2018), which are those with a measurable performance or other barrier and a right of return, are not recognized until the conditions on which they depend have been met.

Expenses are recorded 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 using natural expense classifications. Expenses that are common to several functions are allocated by square footage or employee time.

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, 2019 and 2018 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.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes (continued)

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, 2019 and 2018 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.

Adoption of New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The core principle of this ASU is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration which the entity expects to be entitled in exchange for those goods or services. This ASU eliminated the transaction-specific and industry-specific revenue recognition guidance under previous accounting principles generally accepted in the United States of America and replaced it with a principle based approach for determining revenue recognition.

To achieve the core principle, an entity should apply the following steps:
1. Identify the contract(s) with a customer.
2. Identify the performance obligations in the contract.
3. Determine the transaction price.
4. Allocate the transaction price to the performance obligations in the contract.
5. Recognize revenue when (or as) the entity satisfies a performance obligation.

The cumulative effect of applying this ASU in the year ended December 31, 2019 was not significant to the consolidated financial position or results of operations of the Center and Foundation as of January 1, 2019 and for the year ended December 31, 2019.

In November 2016, FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. Under this ASU, restricted cash is included with cash when reconciling the beginning-of-period and end-of-period amounts shown on the statement of cash flows. The implementation of this ASU during the year ended December 31, 2019 resulted in the inclusion of cash designated for capital campaign in the consolidated statements of cash flows of the Center and Foundation.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of New Accounting Pronouncement (continued)

In June 2018, FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU provides a framework for determining when a transaction should be accounted for as a contribution or as an exchange transaction. This ASU also requires an entity to determine whether a contribution is conditional on the basis of whether an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets.

The Center and Foundation adopted this ASU in the year ended December 31, 2019. This ASU did not have a significant impact on the consolidated financial statements of the Center and Foundation as of and for the year ended December 31, 2019.

NOTE B – LIQUIDITY

The Center and Foundation manages their liquid resources by focusing on fundraising efforts to ensure that they have adequate resources 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 resources 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, 2019 and 2018 available to meet cash needs for general expenditures within one year:

	2019	2018
Operating cash	$ 983,312	$ 475,573
Accounts receivable – net	35,340	108,999
Investments in marketable securities	14,893,097	10,552,659
Total financial assets	15,911,749	11,137,231
Total net assets with donor restrictions	(3,403,327)	(1,777,177)
Financial assets available to meet cash needs for general expenditures within one year	$12,508,422	$9,360,054

NOTE C – INVESTMENTS IN MARKETABLE SECURITIES

At December 31, 2019 and 2018, investments in marketable securities consisted of the following:

	2019		2018	
	Cost	Fair Value	Cost	Fair Value
Common stock and other investments	$10,366,754	$14,656,329	$8,572,842	$10,369,951
Money market funds	236,768	236,768	182,708	182,708
Total investments	$10,603,522	$14,893,097	$8,755,550	$10,552,659

Net investment income (loss) for the years ended December 31, 2019 and 2018 consisted of the following:

	2019	2018
Unrealized gains (losses) from holding marketable securities	$2,492,466	$ (732,171)
Realized gains (losses) from sales of marketable securities	489,575	(74,453)
Interest and dividend income	277,738	290,923
Investment fees	(44,234)	(57,350)
Net investment income (loss)	$3,215,545	$ (573,051)

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.

The Center and Foundation value common stock and other investments at quoted market prices, and money market funds at stated value, for which Level 1 valuation inputs were required. There were no investments for which Level 2 or Level 3 valuation inputs were required.

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, 2019:

	Level 1	Level 2	Level 3	Total
Common stock and other investments				
Technology	$ 3,729,067	$ -	$ -	$ 3,729,067
Mutual funds	2,295,097	-	-	2,295,097
Financial services	1,897,382	-	-	1,897,382
Other investments	1,328,972	-	-	1,328,972
Consumer cyclical	1,276,422	-	-	1,276,422
Healthcare	1,238,953	-	-	1,238,953
Energy	980,725	-	-	980,725
Consumer defensive	931,089	-	-	931,089
Industrials	560,302	-	-	560,302
Communication	418,320	-	-	418,320
Total common stock and other investments	14,656,329	-	-	14,656,329
Money market funds	236,768	-	-	236,768
Total investments at fair value	$14,893,097	$ -	$ -	$14,893,097

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:

	Level 1	Level 2	Level 3	Total
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	$10,552,659	$ -	$ -	$10,552,659

NOTE E – PROPERTY AND EQUIPMENT

At December 31, 2019 and 2018, property and equipment consisted of the following:

	2019	2018
Land	$1,563,888	$1,563,888
Buildings and improvements	4,915,242	4,915,242
Heiau restoration	990,800	990,800
Furniture, fixtures, and equipment	68,465	68,465
Total	7,538,395	7,538,395
Accumulated depreciation	(1,301,153)	(1,129,825)
Property and equipment – net	$6,237,242	$6,408,570

NOTE F – NET ASSETS WITHOUT DONOR RESTRICTIONS

At December 31, 2019 and 2018, net assets without donor restrictions consisted of the following:

	2019	2018
Net assets without designation	$11,764,725	$ 8,731,799
Net assets invested in property and equipment	6,237,242	6,408,570
Net assets designated by Board of Directors for endowment fund	750,000	750,000
Total net assets without donor restriction	$18,751,967	$15,890,369

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, 2019 and 2018.

NOTE G – NET ASSETS WITH DONOR RESTRICTIONS

At December 31, 2019 and 2018, net assets with donor restrictions consisted of the following:

	2019	2018
Net assets with donor restrictions for capital campaign	$1,012,628	$ 961,926
Net assets restricted for endowments	2,378,914	796,729
Net assets with donor restrictions for program purposes		
NEH grant for programs	9,600	-
Pettus Foundation grant for transportation	2,185	18,522
Total net assets with donor restrictions	$3,403,327	$1,777,177

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 $26,308 and $7,740 in income for the years ended December 31, 2019 and 2018, respectively. The Endowment is included in net assets with donor restrictions 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, 2019 and 2018, the Foundation's investments exceeded the related amount of its endowments.

NOTE H – DISAGGREGATION OF REVENUE

For the years ended December 31, 2019 and 2018, revenue from performance obligations satisfied at a point in time, and revenue from sources other than performance obligations consisted of the following:

	2019	2018
Revenue from performance obligations satisfied at a point in time		
Sales of books – net	$ 6,455	$ 6,398
Revenue from sources other than performance obligations		
Investment income (loss) – net	3,215,545	(573,051)
Contributions without restrictions	218,360	392,147
Net assets released from program restrictions	51,737	36,494
Other revenue and support	28,852	6,175
Total revenue	$3,520,949	$ (131,837)

NOTE I – 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 $3,132 and $3,338 for the years ended December 31, 2019 and 2018, respectively.

NOTE J – 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 (such as COVID-19) can have severe, adverse effects on economic conditions in Hawaii. These consolidated financial statements do not include the adjustments that would result if the Center and Foundation were to account for future losses or asset impairments, as the effects on the consolidated financial statements of the Center and Foundation from such changes in economic conditions are not presently determinable.

NOTE K – SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 24, 2020, 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, except as noted below.

The COVID-19 pandemic has caused business disruption from government-mandated and voluntary closings or reductions in services for all industries, and affected the fair value marketable securities. While the disruption is currently expected to be temporary, there is considerable uncertainty as to the duration of the negative economic impact from such disruption. The Center and Foundation expect this matter to negatively impact the fair value of investments and the resulting investment income; however, the related financial impact cannot be reasonably estimated at this time.

In April 2020, the Center applied for and received a $62,000 Paycheck Protection Program (PPP) loan from Central Pacific Bank. The U.S. Small Business Administration (SBA) established the PPP loan program in response to the COVID-19 pandemic to fund an entity's payroll and other applicable costs. All or a portion of the loan, which matures two years from the date of funding and bears interest at 1%, may be forgiven if the Center meets the compliance requirements established by the SBA and other federal agencies.