

**MANOA HERITAGE CENTER
AND KUALII FOUNDATION**

**CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended December 31, 2020 and 2019
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, 2020 and 2019, 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, 2020 and 2019, 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.

CW ASSOCIATES, CPAs

Honolulu, Hawaii
September 21, 2021

MANOA HERITAGE CENTER AND KUALII FOUNDATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
CURRENT ASSETS		
Operating cash	\$ 558,630	\$ 983,312
Accounts receivable – net	35,340	35,340
Inventory of art and books	40,026	41,098
Prepaid expenses	642	642
Total current assets	<u>634,638</u>	<u>1,060,392</u>
INVESTMENTS IN MARKETABLE SECURITIES	18,812,423	14,893,097
PROPERTY AND EQUIPMENT – Net	6,066,248	6,237,242
CASH DESIGNATED FOR CAPITAL CAMPAIGN	9,383	9,383
HISTORICAL COLLECTION (See Note A)	<u>-</u>	<u>-</u>
TOTAL ASSETS	<u>\$25,522,692</u>	<u>\$22,200,114</u>
 LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 15,201	\$ 19,778
Accrued liabilities	22,449	25,042
Total current liabilities	<u>37,650</u>	<u>44,820</u>
NET ASSETS		
Net assets without donor restrictions	21,218,790	18,751,967
Net assets with donor restrictions	4,266,252	3,403,327
Total net assets	<u>25,485,042</u>	<u>22,155,294</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$25,522,692</u>	<u>\$22,200,114</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, 2020 and 2019

	<u>2020</u>	<u>2019</u>
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
Revenue and support		
Investment income – net	\$ 2,402,496	\$ 3,215,545
Contributions without donor restrictions	487,354	218,360
Net assets released from donor restrictions for programs	74,221	51,737
Forgiveness of SBA PPP loan	62,000	-
Sales of books – net	3,012	6,455
Other revenue and support	2,666	28,852
Total revenue and support	<u>3,031,749</u>	<u>3,520,949</u>
Expenses		
Program services	639,248	621,744
Management and general	120,038	103,714
Fundraising	147,418	142,714
Total expenses	<u>906,704</u>	<u>868,172</u>
Revenue and support less expenses	2,125,045	2,652,777
Net assets released from donor restrictions for capital campaign	341,778	208,821
Increase in net assets without donor restrictions	<u>2,466,823</u>	<u>2,861,598</u>
CHANGES IN ASSETS WITH DONOR RESTRICTIONS		
Net assets with donor restrictions for capital campaign		
Contributions with donor restrictions	-	259,523
Net assets released from donor restrictions	(341,778)	(208,821)
Increase (decrease) in net assets with donor restriction for capital campaign	<u>(341,778)</u>	<u>50,702</u>
Net assets with donor restrictions for endowments		
Contributions with donor restrictions	1,123,924	1,582,185
Increase in net assets with donor restrictions for endowments	<u>1,123,924</u>	<u>1,582,185</u>
Net assets with donor restrictions for programs		
Contributions with donor restrictions	155,000	45,000
Net assets released from donor restrictions	(74,221)	(51,737)
Increase (decrease) in net assets with donor restriction for programs	<u>80,779</u>	<u>(6,737)</u>
Increase in net assets with donor restrictions	<u>862,925</u>	<u>1,626,150</u>
INCREASE IN NET ASSETS	3,329,748	4,487,748
NET ASSETS – Beginning of year	<u>22,155,294</u>	<u>17,667,546</u>
NET ASSETS – End of year	<u>\$25,485,042</u>	<u>\$22,155,294</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, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Program services		
Salaries and related costs	\$303,758	\$275,723
Depreciation	128,246	128,496
Professional fees	96,715	91,898
Office and administrative	41,088	28,129
Education and program	37,512	45,335
Occupancy	31,929	52,163
Total program services	<u>639,248</u>	<u>621,744</u>
Management and general		
Professional fees	57,319	50,217
Office and administrative	33,630	24,654
Depreciation	17,099	17,133
Salaries and related costs	10,849	9,848
Occupancy	1,141	1,862
Total management and general	<u>120,038</u>	<u>103,714</u>
Fundraising		
Professional fees	62,725	61,014
Salaries and related costs	47,010	42,671
Depreciation	25,649	25,699
Office and administrative	7,092	5,257
Occupancy	4,942	8,073
Total fundraising	<u>147,418</u>	<u>142,714</u>
 Total expenses	 <u>\$906,704</u>	 <u>\$868,172</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, 2020 and 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 3,329,748	\$ 4,487,748
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Decrease in pledges receivable – net, designated for capital campaign	-	100,000
Forgiveness of SBA PPP loan	(62,000)	-
Unrealized gains from holding marketable securities	(1,674,523)	(2,492,466)
Realized gains from sales of marketable securities	(569,772)	(489,575)
Contributions with donor restrictions for endowments	(1,123,924)	(1,582,185)
Depreciation	170,994	171,328
(Increase) decrease in		
Accounts receivable – net	-	73,659
Inventory of art and books	1,072	2,383
Prepaid expenses	-	(33)
Increase (decrease) in		
Accounts payable	(4,577)	1,937
Accrued liabilities	(2,593)	11,155
Net cash provided by operating activities	<u>64,425</u>	<u>283,951</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Sales of marketable securities	10,092,465	9,609,227
Purchases of marketable securities	<u>(11,767,496)</u>	<u>(10,967,624)</u>
Net cash used by investing activities	<u>(1,675,031)</u>	<u>(1,358,397)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from SBA PPP loan	62,000	-
Contributions with donor restrictions for endowments	1,123,924	1,582,185
Net cash provided by financing activities	<u>1,185,924</u>	<u>1,582,185</u>
NET INCREASE (DECREASE) IN CASH	(424,682)	507,739
CASH – Beginning of year	<u>992,695</u>	<u>484,956</u>
CASH – End of year	<u>\$ 568,013</u>	<u>\$ 992,695</u>
SUMMARY OF CASH – End of year		
Operating cash	\$ 558,630	\$ 983,312
Cash designated for capital campaign	<u>9,383</u>	<u>9,383</u>
CASH – End of year	<u>\$ 568,013</u>	<u>\$ 992,695</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, 2020 and 2019

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 Presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), which require the Center and Foundation to report information regarding its financial position and activities according to the following net asset classifications:

Net Assets without Donor Restrictions consist of net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Center and Foundation. These net assets may be used at the discretion of the Center and Foundation's management and board of directors.

Net Assets with Donor Restrictions consist of net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Center and Foundation or the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

MANOA HERITAGE CENTER AND KUALII FOUNDATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2020 and 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

U.S. GAAP 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, it is reasonably possible that such estimates may change within the near term, and such differences could be material to the consolidated financial statements.

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, and cash designated for capital campaign. Operating cash and cash designated for capital campaign on deposit with financial institutions exceeded the related federal deposit insurance by approximately \$260,000 and \$276,000 at December 31, 2020 and 2019, respectively. Management evaluates the credit standings of these financial institutions to ensure that such deposits are adequately safeguarded. Accounts receivable, which have been adjusted for all known doubtful accounts (none at December 31, 2020 and 2019) are determined to be collectible or uncollectible based on an assessment by management of the facts and circumstances related to the individual accounts, including historical experience, an assessment of economic conditions, and a review of subsequent collections. 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 Art and Books

The inventory of art and books consists of art and 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.

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.

MANOA HERITAGE CENTER AND KUALII FOUNDATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2020 and 2019

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 and other revenue and support. 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 \$1,072 and \$2,383 for the years ended December 31, 2020 and 2019, respectively. Other revenue and support is recognized when earned.

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.

Contributions

The Center and Foundation recognize contributions when cash or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give, which are those with a measureable performance or other barriers and right of return, are not recognized until the conditions on which they depend have been met.

Contributions 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. When a restriction is satisfied or expires, net assets with donor restrictions are released to net assets without donor restrictions. If a restriction is fulfilled during the same time period in which the contribution is received, the Center and Foundation report the contribution as net assets without donor restrictions.

MANOA HERITAGE CENTER AND KUALII FOUNDATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2020 and 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Donated Services

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 and Foundation. A number of unpaid volunteers have made significant contributions of their time to the Center and Foundation. The value of this time is not reflected in these consolidated financial statements because it does not meet the criteria for recognition.

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, 2020 and 2019 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.

U.S. GAAP requires 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, 2020 and 2019 and determined that they had no uncertain tax positions required to be reported in accordance with U.S. GAAP. 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.

NOTE B – LIQUIDITY

The Center and Foundation manage their liquid resources by focusing on fundraising efforts to ensure that they have adequate resources to fund the programs that they conduct. The Center and Foundation prepare annual budgets and monitor actual financial results each month to ensure that they control costs and remain liquid.

MANOA HERITAGE CENTER AND KUALII FOUNDATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2020 and 2019

NOTE B – LIQUIDITY (Continued)

The following reflects the Center and Foundation’s consolidated financial assets as of December 31, 2020 and 2019 available to meet cash needs for general expenditures within one year:

	<u>2020</u>	<u>2019</u>
Operating cash	\$ 558,630	\$ 983,312
Accounts receivable – net	35,340	35,340
Investments in marketable securities	<u>18,812,423</u>	<u>14,893,097</u>
Total financial assets	19,406,393	15,911,749
Total net assets with donor restrictions	<u>(4,266,252)</u>	<u>(3,403,327)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 15,140,141</u>	<u>\$ 12,508,422</u>

NOTE C – INVESTMENTS IN MARKETABLE SECURITIES

At December 31, 2020 and 2019, investments in marketable securities consisted of the following:

	<u>2020</u>		<u>2019</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Common stock and other investments	\$ 11,328,584	\$ 17,292,682	\$ 10,366,754	\$ 14,656,329
Money market funds	<u>1,519,741</u>	<u>1,519,741</u>	<u>236,768</u>	<u>236,768</u>
Total investments	<u>\$ 12,848,325</u>	<u>\$ 18,812,423</u>	<u>\$ 10,603,522</u>	<u>\$ 14,893,097</u>

Net investment income for the years ended December 31, 2020 and 2019 consisted of the following:

	<u>2020</u>	<u>2019</u>
Unrealized gains from holding marketable securities	\$ 1,674,523	\$ 2,492,466
Realized gains from sales of marketable securities	569,772	489,575
Interest and dividend income	207,634	277,738
Investment fees	<u>(49,433)</u>	<u>(44,234)</u>
Net investment income	<u>\$ 2,402,496</u>	<u>\$ 3,215,545</u>

MANOA HERITAGE CENTER AND KUALII FOUNDATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2020 and 2019

NOTE D – FAIR VALUE MEASUREMENTS

U.S. GAAP 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.

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, 2020:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Common stock and other investments				
Technology	\$ 4,420,666	\$ -	\$ -	\$ 4,420,666
Mutual funds	3,415,565	-	-	3,415,565
Financial services	2,091,813	-	-	2,091,813
Healthcare	1,782,676	-	-	1,782,676
Consumer cyclical	1,748,896	-	-	1,748,896
Other investments	1,339,976	-	-	1,339,976
Industrials	823,414	-	-	823,414
Consumer defensive	642,960	-	-	642,960
Communication	522,801	-	-	522,801
Energy	503,915	-	-	503,915
Total common stock and other investments	<u>17,292,682</u>	-	-	<u>17,292,682</u>
Money market funds	<u>1,519,741</u>	-	-	<u>1,519,741</u>
 Total investments at fair value	 <u>\$ 18,812,423</u>	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ 18,812,423</u>

MANOA HERITAGE CENTER AND KUALII FOUNDATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2020 and 2019

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:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
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	<u>14,656,329</u>	<u>-</u>	<u>-</u>	<u>14,656,329</u>
Money market funds	<u>236,768</u>	<u>-</u>	<u>-</u>	<u>236,768</u>
 Total investments at fair value	 <u>\$ 14,893,097</u>	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ 14,893,097</u>

NOTE E – PROPERTY AND EQUIPMENT

At December 31, 2020 and 2019, property and equipment consisted of the following:

	<u>2020</u>	<u>2019</u>
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	<u>7,538,395</u>	<u>7,538,395</u>
Accumulated depreciation	<u>(1,472,147)</u>	<u>(1,301,153)</u>
 Property and equipment – net	 <u>\$ 6,066,248</u>	 <u>\$ 6,237,242</u>

MANOA HERITAGE CENTER AND KUALII FOUNDATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2020 and 2019

NOTE F – SBA PPP LOAN

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. The SBA PPP loan balance amounted to \$62,000 at December 31, 2020.

The Center follows the accounting guidance for government grants in U.S. GAAP for accounting for the recognition of revenue from forgiveness of the PPP loan. In applying that guidance, the Center recognizes revenue when the barriers to entitlement to loan forgiveness are met. Management determined that those barriers to entitlement included incurring qualifying costs related to the COVID-19 pandemic. Management determined that the barriers to entitlement were met prior to December 31, 2020, as the Center incurred qualifying costs of \$62,000 prior to December 31, 2020, and otherwise met the compliance requirements established by the SBA and other federal agencies. Accordingly, the Center recognized the full amount of forgiveness of the PPP loan in the statement of activities for the year ended December 31, 2020, and no liability for the PPP loan is presented on the statement of financial position as of December 31, 2020 even though the loan was still outstanding at that date. On April 16, 2021, the PPP loan was forgiven by the SBA.

NOTE G – NET ASSETS WITHOUT DONOR RESTRICTIONS

At December 31, 2020 and 2019, net assets without donor restrictions consisted of the following:

	<u>2020</u>	<u>2019</u>
Net assets without designation	\$ 14,402,542	\$ 11,764,725
Net assets invested in property and equipment	6,066,248	6,237,242
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>\$ 21,218,790</u>	<u>\$ 18,751,967</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, 2020 and 2019.

MANOA HERITAGE CENTER AND KUALII FOUNDATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2020 and 2019

NOTE H – NET ASSETS WITH DONOR RESTRICTIONS

At December 31, 2020 and 2019, net assets with donor restrictions consisted of the following:

	<u>2020</u>	<u>2019</u>
Net assets restricted for endowments	\$3,502,838	\$2,378,914
Net assets with donor restrictions for capital campaign	<u>670,850</u>	<u>1,012,628</u>
Net assets with donor restrictions for program purposes		
NOAA Grant	88,855	-
NEH grant for programs	3,709	9,600
Pettus Foundation grant for transportation	<u>-</u>	<u>2,185</u>
Total net assets with donor restrictions for program purposes	<u>92,564</u>	<u>11,785</u>
 Total net assets with donor restrictions	 <u>\$4,266,252</u>	 <u>\$3,403,327</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 is considered unrestricted and appropriated for expenditure when earned. The Endowment earned \$42,606 and \$26,308 in income for the years ended December 31, 2020 and 2019, 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.

U.S. GAAP provides 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, 2020 and 2019, 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, 2020 and 2019

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 \$10,528 and \$3,132 for the years ended December 31, 2020 and 2019, 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.

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 of marketable securities. While the disruption is currently expected to be temporary, there is considerable uncertainty as to the duration of the economic impact from such disruption. The Center and Foundation expect that this matter may continue to impact their operating results; however, the related financial impact cannot be reasonably estimated at this time.

NOTE K – SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 21, 2021, 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.