

**UNIVERSITY OF THE NATIONS, KONA, INC.**  
(A Hawai'i Nonprofit Corporation)

CONSOLIDATED AUDITED FINANCIAL STATEMENTS  
WITH INDEPENDENT AUDITOR'S REPORT

FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

**UNIVERSITY OF THE NATIONS, KONA, INC.**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees and Management of  
University of the Nations, Kona, Inc.  
Kailua-Kona, Hawaii 96740

We have audited the accompanying consolidated financial statements of University of the Nations, Kona, Inc. (a nonprofit corporation), which comprise the consolidated statements of financial position as of June 30, 2020 and 2019, and the related statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

**Management's Responsibility for the 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 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free from 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 financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of University of the Nations, Kona, Inc. as of June 30, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Carbonaro CPAs & Management Group*

Kona, Hawaii  
October 9, 2020

UNIVERSITY OF THE NATIONS, KONA, INC.

**Consolidated Statements of Financial Position**

As of June 30, 2020 and 2019

	<b>ASSETS</b>	
	<u>2020</u>	<u>2019</u>
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents (Note 2)	\$ 2,300,662	\$ 3,137,739
Cash Advances (Note 2)	10,800	571,498
Accounts Receivable, Net (Note 2)	25,052	69,207
Inventory (Note 2)	18,384	17,994
Prepaid Expenses	<u>13,575</u>	<u>21,392</u>
Total Current Assets	<u>2,368,473</u>	<u>3,817,830</u>
<b>FIXED ASSETS (Note 2)</b>		
Land	9,291,209	9,291,209
Buildings	29,650,252	29,314,216
Furniture and Equipment	1,168,052	895,488
Vehicles	611,870	462,685
Assets in Progress	4,704,453	4,133,375
Less: Accumulated Depreciation	<u>(10,214,113)</u>	<u>(9,106,329)</u>
Total Fixed Assets	<u>35,211,723</u>	<u>34,990,643</u>
<b>OTHER LONG-TERM ASSETS</b>		
Investments in Hualalai Condominiums (Notes 5 and 11)	2,910,000	2,565,000
Notes Receivable (Note 3)	<u>197,687</u>	<u>197,712</u>
Total Other Long-Term Assets	<u>3,107,687</u>	<u>2,762,712</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 40,687,883</u></u>	<u><u>\$ 41,571,186</u></u>

The accompanying notes are an integral part of these consolidated financial statements.



UNIVERSITY OF THE NATIONS, KONA, INC.

**Consolidated Statements of Activities and Changes in Net Assets**  
For the Years Ended June 30, 2020 and 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>REVENUES AND OTHER SUPPORT</b>						
Student and Staff Fees, Net	\$ 11,874,682	\$ -	\$ 11,874,682	\$ 14,437,855	\$ -	\$ 14,437,855
Contributions and Support	478,450	11,871,823	12,350,273	272,387	10,216,568	10,488,955
Sales and Other Revenue	574,016	-	574,016	678,579	123,383	801,962
Net Rental Income on Investment in Hualalai Condos (Notes 5 and 9)	10,761	52,210	62,971	5,983	60,250	66,233
Donations In Kind (Notes 2 and 12)	30,584	-	30,584	-	-	-
Net Assets Released from Restrictions	11,389,711	(11,389,711)	-	10,404,657	(10,404,657)	-
Total Public Support and Revenue	24,358,204	534,322	24,892,526	25,799,461	(4,456)	25,795,005
<b>EXPENSES</b>						
Program Expenses	22,155,163	-	22,155,163	23,897,832	-	23,897,832
Management and General	2,038,493	-	2,038,493	2,251,758	-	2,251,758
Fundraising	281,503	-	281,503	316,053	-	316,053
Total Expenses	24,475,159	-	24,475,159	26,465,643	-	26,465,643
<b>CHANGE IN NET ASSETS</b>	<b>(116,955)</b>	<b>534,322</b>	<b>417,367</b>	<b>(666,182)</b>	<b>(4,456)</b>	<b>(670,638)</b>
NET ASSETS, BEGINNING OF YEAR	31,307,812	2,667,337	33,975,149	31,973,994	2,671,793	34,645,787
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 31,190,857</b>	<b>\$ 3,201,659</b>	<b>\$ 34,392,516</b>	<b>\$ 31,307,812</b>	<b>\$ 2,667,337</b>	<b>\$ 33,975,149</b>

The accompanying notes are an integral part of these consolidated financial statements.

UNIVERSITY OF THE NATIONS, KONA, INC.

**Consolidated Statements of Functional Expenses**

For the Years Ended June 30, 2020 and 2019

	2020				2019			
	Program Services	Management and General	Fundraising	Total 2020	Program Services	Management and General	Fundraising	Total 2019
Missionary Payments	\$ 9,807,142	\$ -	\$ -	\$ 9,807,142	\$ 9,227,361	\$ -	\$ -	\$ 9,227,361
Outreach Services	4,015,820	-	-	4,015,820	5,875,672	-	-	5,875,672
Food and Household	1,432,248	358,062	-	1,790,310	1,716,314	429,079	-	2,145,393
Occupancy	1,500,212	267,630	17,842	1,785,684	1,857,320	331,337	22,089	2,210,746
Contracted Services	613,117	490,867	122,717	1,226,701	650,669	520,931	130,233	1,301,833
Depreciation Expense	943,492	235,874	-	1,179,366	764,299	191,076	-	955,375
Donations	1,081,715	-	-	1,081,715	588,577	-	-	588,577
Schools and Programs	929,239	69,977	-	999,216	856,840	64,525	-	921,365
Supplies and Small Equipment	364,112	97,009	24,252	485,373	671,304	178,854	44,714	894,872
Information Technology	302,373	93,245	69,934	465,552	405,717	125,114	93,835	624,666
Travel	289,078	72,270	-	361,348	492,393	123,099	-	615,492
Merchant Fees	222,117	95,194	-	317,311	173,900	74,529	-	248,429
Interest Expense	184,546	46,137	-	230,683	187,154	46,789	-	233,943
Printing and Publications	146,714	19,050	24,773	190,537	28,185	3,660	4,759	36,604
Cost of Sales and Services	136,535	7,216	-	143,751	204,984	10,834	-	215,818
Equipment Rental and Maintenance	106,323	27,023	1,351	134,697	109,507	27,833	1,391	138,731
Legal and Professional	13,377	113,702	6,688	133,767	9,080	77,176	4,540	90,796
Telephone	43,042	10,896	546	54,484	39,307	9,950	498	49,755
Accounting	-	29,117	-	29,117	-	31,625	-	31,625
Postage and Shipping	9,143	5,224	11,754	26,121	9,358	5,347	12,031	26,736
Promotional	14,818	-	1,646	16,464	17,673	-	1,963	19,636
Bad Debt Expense	-	-	-	-	12,218	-	-	12,218
<b>Total Operating Expenses</b>	<b>\$ 22,155,163</b>	<b>\$ 2,038,493</b>	<b>\$ 281,503</b>	<b>\$ 24,475,159</b>	<b>\$23,897,832</b>	<b>\$ 2,251,758</b>	<b>\$ 316,053</b>	<b>\$ 26,465,643</b>

The accompanying notes are an integral part of these consolidated financial statements.



UNIVERSITY OF THE NATIONS, KONA, INC.

**Consolidated Statements of Cash Flows**  
For the Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in Net Assets	\$ 417,367	\$ (670,638)
Expense Items Not Requiring Current Cash:		
Depreciation	1,179,366	955,375
Decrease in Cash Advances	560,698	116,815
Bad Debts Expense	-	12,218
Loss on Sale of Assets	9,826	-
Decrease in Prepaid Expenses	7,817	64,860
Increase in Accounts Payable and Accrued Expenses	-	158,023
Cash Received Not Related to Income or Expense:		
Decrease in Accounts Receivable	44,155	10,909
Decrease in Notes Receivable	25	302,287
Increase in Deferred Revenue	-	572,837
Income Items Not Creating Current Cash:		
Gain on Sale of Assets	-	(3,462)
Decrease in Deferred Revenue	(996,426)	-
Donations in Kind	(30,584)	-
Cash Paid Not Related to Current Income or Expense:		
Decrease in Accounts Payable and Accrued Expenses	(723,720)	-
Increase in Inventory	(390)	(2,635)
Net Cash Provided by Operations	<u>\$ 468,134</u>	<u>\$ 1,516,589</u>

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UNIVERSITY OF THE NATIONS, KONA, INC.

**Consolidated Statements of Cash Flows**  
For the Years Ended June 30, 2020 and 2019

<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	<b>2020</b>	<b>2019</b>
Gross Proceeds from Sale of Assets	\$ 7,000	\$ 11,900
Purchases of Property and Equipment, (Net of \$30,584 and \$0 in Donated Labor and Vehicles for the years ended June 30, 2020 and 2019, respectively	(1,386,687)	(1,422,313)
Investment in Condos	<u>(345,000)</u>	<u>(235,000)</u>
Net Cash Used by Investing Activities	<u>(1,724,687)</u>	<u>(1,645,413)</u>
 <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net Reduction in Long-Term Debt	(30,524)	(1,206,673)
Increase in Line of Credit Payable	200,000	-
Increase in Ahualani Note Payable	<u>250,000</u>	<u>-</u>
Net Cash From or (Used by) Financing Activities	<u>419,476</u>	<u>(1,206,673)</u>
 <b>NET INCREASE (DECREASE) IN CASH</b>	<b>(837,077)</b>	<b>(1,335,497)</b>
 <b>BEGINNING CASH BALANCE</b>	<u>3,137,739</u>	<u>4,473,236</u>
 <b>ENDING CASH BALANCE</b>	<u><u>\$ 2,300,662</u></u>	<u><u>\$ 3,137,739</u></u>

The accompanying notes are an integral part of these consolidated financial statements.

UNIVERSITY OF THE NATIONS, KONA, INC.

**Notes to the Consolidated Financial Statements**

June 30, 2020 and 2019

**Note 1. UNIVERSITY**

The University of the Nations, Kona, Inc. (the University) is a private Christian educational institution located in Kailua-Kona, Hawaii, founded in 1978. The University trains individuals to become Christian missionaries who fulfill the University's motto: "To Know God and to Make Him Known".

The University grants post-secondary degrees through its seven colleges at its main campus in Kona. The University utilizes a modular class approach where 12 week lecture phases are typically followed by a 12 week practicum, often in a foreign country. The University offers its classes on a calendar quarterly basis. The University also operates a school for the children of students and staff.

The University contracts with outside employment agencies for certain key functions, but is otherwise staffed by volunteers (missionaries). Volunteer staff are responsible for raising their own support and are considered independent contractors and not employees. The University acts as a qualified mission agency and collects and disburses donations to the missionaries. The volunteer staff are individually responsible for any required filings with government agencies.

Two components make up the bulk of the University's revenue: (a) Contributions and Support, which are donations from the general public; and (b) Program-related Tuition and Fees charged to students and staff. Contributions and Support are comprised of donations made to the University's general fund and programs, as well as donations to support the independent missionaries (volunteers) working throughout the world. The University has discretion over the donations received to support its volunteers, thus these transactions are not agency transactions.

There are many *Youth with a Mission* non-profit corporations around the world with which the University is associated. Each corporation is autonomous in control and structure. These financial statements include only the operation controlled by University of the Nations, Kona, Inc., Kailua Kona, Hawai'i, USA campus.

**Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Method of Accounting:* The University uses the accrual method of accounting for financial statement reporting according to generally accepted accounting principles. Under this method of accounting, revenue is recognized when earned rather than when received and expenses are recognized when incurred rather than when paid.

*Basis of Consolidation:* These financial statements include the accounts for all academic and administrative departments of the University. Additionally, the financial statements include the net assets and activities of the University of the Nations Kona Foundation (UNKF), a separate nonprofit corporation that existed to solicit gifts for the University, and which was controlled by the University. UNKF ceased operations and was dissolved as of March 31, 2020, and all remaining assets were turned over to the University. All significant inter-company accounts have been eliminated in consolidation.

*Revenue Recognition:* Contributions received are recorded either "With Donor Restrictions" or "Without Donor Restrictions". Grants and other contributions of cash are reported as having donor restrictions if they are received with donor stipulations that limit the use of the donated assets. Unconditional promises to give within the next year are reflected as current promises to give and are recorded at their net realizable value.

UNIVERSITY OF THE NATIONS, KONA, INC.

**Notes to the Consolidated Financial Statements**

June 30, 2020 and 2019

**Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

*Net assets released from restriction:* When a donor restriction expires, the related net assets are reclassified as “Without Restrictions” and reported in the Consolidated Statement of Activities as “Net Assets Released from Restrictions”.

*Cash and Cash Equivalents:* For the purpose of the Statement of Cash Flows, cash is defined as demand deposits and savings accounts with maturities of three months or less.

*Cash Advances:* The University uses these accounts to track cash provided in advance to missionaries and students for expense and outreach purposes. The cash advance is maintained in full on the balance sheet until receipts are provided to support the use of the funds or the return of any unused cash.

*Accounts Receivable:* Accounts Receivable primarily represents student and staff fees owed to the University. The Accounts Receivable gross balance from students and staff was \$244,424 and \$305,612 as of June 30, 2020 and 2019, respectively. Management has recorded an allowance for doubtful accounts equal to 90.05% and 80.72% of those receivables as of June 30, 2020 and 2019, respectively. Management considers these percentages to be reasonable based on the University’s recent historic rates of collection.

*Income Taxes:* The University is exempt from federal income taxes pursuant to Internal Revenue Code section 501 (c) (3), and exempt from state income taxes under Section 237-23 (b) of the Hawaii Revised Statutes. Therefore, no provision for federal or state income taxes is required for the financial statements.

*Use of Estimates:* The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

*Inventory:* Inventory consists of food supplies and merchandise and is valued at the lower of cost or market on a first-in, first-out basis.

*Fixed Assets:* Land, buildings, equipment, and vehicles are stated at cost or the fair value at date of donation. Major renewals and improvements are capitalized, while maintenance and repairs that do not extend the lives of the assets are charged to operations. Management capitalizes items over \$5,000 with a useful life greater than one year. Depreciation is provided over the estimated useful lives of the assets using the straight-line method.

*Deferred Tuition and Fees Revenue:* Deferred tuition and fees revenue represent amounts collected from students and staff for tuition, housing fees, and outreach fees in advance of the time of invoice.

*Contributions and Donations In-Kind:* Under Financial Accounting Standards Board (FASB) standard ASC 958-605-25-16, contributions of donated goods and services that create or enhance non-financial assets; or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation; are recorded at their fair values in the period received. (See Note 12.)

UNIVERSITY OF THE NATIONS, KONA, INC.

Notes to the Consolidated Financial Statements

June 30, 2020 and 2019

**Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

*Functional Allocation of Expenses:* The costs of providing the various programs and activities have been summarized on a functional basis in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and services benefited.

*Liquidity:* The University structures its financial assets to be available as general expenditures, liabilities, and other obligations come due. The University invests cash in excess of daily requirements in interest bearing accounts when expedient. In addition, the University has a \$1 million line of credit to help insure it has sufficient liquidity during the summer when there are fewer students or in case of an emergency requiring significant financial resources (Note 8). The Net Rental Income from the University's board-designated Hawaii Island scholarship fund, however, is unavailable to management for general expenditures. Additionally, financial assets with donor restrictions are withheld from amounts available for expenditure (Note 6).

**Note 3. NOTES RECEIVABLE**

Notes Receivable consists of one long-term receivable:

• *Restitution Receivable* - \$197,687. In the fiscal year ended June 30, 2017, the University discovered fraud on the part of the former CFO totaling \$3,128,194. In addition to these losses, the University recorded a fraud settlement receivable of \$300,000 to approximate assets seized by the court which have been ordered liquidated and presented to the University. During the fiscal year ended June 30, 2020, the University received \$25 in fraud compensation, which, when added to amounts received in previous years, leaves a receivable balance of \$197,687. However, the full remaining court-ordered restitution of \$3,025,881 is collectable by the University at some future date.

**Note 4. NET ASSETS**

Net Assets, Revenue, and Support are classified based on the existence or absence of donor-imposed restrictions. Accordingly, Net Assets and changes therein are classified as follows:

- (a) Net Assets Without Donor Restrictions include all resources that are not subject to donor-imposed stipulations, or contributions with donor-imposed restrictions that are met during the same year as the contribution is made. They are available for support of all organizational operations and services and may be designated by the Board of Directors for a specific purpose at any time. For the fiscal years ended June 30, 2020 and 2019 they consist of the following:

	<u>2020</u>	<u>2019</u>
Board-Designated Endowment for Hawaii Island Scholarships	\$ 236,278	\$ 226,497
Undesignated Net Assets	<u>30,954,579</u>	<u>31,081,315</u>
Total Net Assets Without Donor Restrictions	<u>\$ 31,190,857</u>	<u>\$ 31,307,812</u>

UNIVERSITY OF THE NATIONS, KONA, INC.

**Notes to the Consolidated Financial Statements**  
June 30, 2020 and 2019

**Note 4. NET ASSETS (continued)**

(b) Net Assets With Donor Restrictions include amounts that the donor restricts in perpetuity as well as amounts subject to stipulations that may or will be met by actions of the University and/or passage of time. Contributions with time or purpose restrictions are reported as increases in Net Assets With Donor Restrictions. When the restriction is met, the amount is reclassified to Net Assets Without Restrictions and is reported in the Consolidated Statement of Activities as “Net Assets Released from Restrictions.”

Net Assets With Donor Restrictions through Perpetuity are subject to donor-imposed stipulations that must be maintained permanently by the University. These assets constitute the University’s endowment funds. Income realized by the endowment, as well as unrealized capital appreciation on the endowment, is recorded as an increase in Net Assets With Donor Restrictions until the income is appropriated for student scholarships.

Net Assets With Donor Restrictions consist of the following as of June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Ministry Funds	\$1,010,933	\$473,723
Available Endowment Earnings (Note 9)	120,027	91,317
Financial Aid and Other Scholarships	107,998	95,635
Building Funds	102,745	138,539
International Funds	89,956	98,123
Total Net Assets With Non-Perpetual Donor Restrictions	<u>1,431,659</u>	<u>897,337</u>
Net Assets With Donor Restrictions Through Perpetuity:		
Scholarship Endowment Funds (Note 9)	1,770,000	1,770,000
Total Net Assets With Perpetual Donor Restrictions	<u>1,770,000</u>	<u>1,770,000</u>
Total Net Assets With Donor Restrictions	<u><u>\$3,201,659</u></u>	<u><u>\$2,667,337</u></u>

**Note 5. RELATED PARTY TRANSACTIONS**

*Economic Interest in Ka Ohana Waiaha:*

Ka Ohana Waiaha (KOW) is a tax-exempt community land trust corporation created in 2008 to fund the purchases of housing for long-term members of the University staff. It is not controlled by the University. KOW owns Hualalai Village, a condominium development located adjacent to University property.

The University owns ten individual condominium units in Hualalai Village, of which six were purchased as investments of its permanent endowment funds. All of the six endowment units are debt-free. The tenth unit was purchased during the fiscal year ended June 30, 2020, for \$345,000 financed by a long-term loan.

UNIVERSITY OF THE NATIONS, KONA, INC.

**Notes to the Consolidated Financial Statements**

June 30, 2020 and 2019

**Note 5. RELATED PARTY TRANSACTIONS (continued)**

The University rents the units to staff and pays related expenses and association fees. Net income earned from the endowment condominiums is used for scholarships, in accordance with purpose restrictions established by the endowment donors.

The investments in the condominiums are stated at current realizable value which is the contractual price for which each unit would be sold per deed restrictions. As of both June 30, 2020 and June 30, 2019 this current realizable value was below fair market value.

*Indemnity Agreement with Kamaaina Hale Apartments:*

In August of 2013, a separate nonprofit corporation, Kamaaina Hale Apartments (KHA), was formed to acquire a 128 unit low-cost housing development adjacent to the University's campus. The University has signed an indemnity agreement on behalf of KHA, guaranteeing annual sub-lease payments of \$400,000 to the land owner, Kamehameha Schools Bishop Estate (KSBE). The University does not expect to be required to make payments to KSBE on behalf of KHA.

*Ahualani Note Payable:*

In the fiscal year ended June 30, 2020, the University obtained an interest-free loan of \$250,000 from Ahualani, a non-profit organization in Kealahou, Hawaii, whose president is Loren Cunningham the president and co-founder of University of the Nations, Kona, Inc. Loan proceeds were used for university construction purposes and are based on a commitment of a donor to contribute \$250,000 to the University.

**Note 6. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS**

Financial assets available for general expenditures within one year, at June 30, 2020 and 2019 were:

	2020	2019
Cash and Cash Equivalents	\$ 2,300,662	\$ 3,137,739
Cash Advances	10,800	571,498
Accounts Receivable, Net	25,052	69,207
Total Financial Assets	<u>2,336,514</u>	<u>3,778,444</u>
Less Amounts Unavailable for General Expenditures:		
Donor Restricted Financial Assets	(1,431,659)	(897,337)
Board Designated Financial Assets for Hawaiian Scholarship	<u>(12,194)</u>	<u>(2,413)</u>
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	<u>\$ 892,661</u>	<u>\$ 2,878,694</u>

UNIVERSITY OF THE NATIONS, KONA, INC.

**Notes to the Consolidated Financial Statements**  
June 30, 2020 and 2019

**Note 7. LONG TERM DEBT**

As of June 30, 2020 and 2019 long term debt consisted of the following:

	<u>2020</u>	<u>2019</u>
Central Pacific Bank Loan-1 carried a fixed interest rate of 4.0% and monthly payments of \$31,909 until September, 2019, when it was refinanced at a fixed interest rate of 4.51% and monthly payments of \$28,817. The loan matures in September 2024, and is secured by a first mortgage on the campus property.	\$4,223,551	\$4,584,407
Less: Current Portion	(158,571)	(157,633)
Net Long Term Debt	<u>4,064,980</u>	<u>4,426,774</u>
 The Hualalai Condo Mortgage carries a fixed interest rate of 3.75% and monthly payments of \$2,016. The loan matures in September, 2024.	 330,332	 -
Less: Current Portion	(12,007)	-
Net Long Term Debt	<u>318,325</u>	<u>-</u>
 Total Long Term Debt	 <u>\$ 4,383,305</u>	 <u>\$ 4,426,774</u>

Total interest expense on long-term debt was \$222,393 and \$212,067 for the years ended June 30, 2020, and 2019, respectively.

As of June 30, 2020, estimated maturities of long-term debt were:

<u>Fiscal Year</u>	<u>Amount</u>
2021	\$ 170,578
2022	178,337
2023	186,450
2024	194,933
2025	3,823,585
Total	<u>\$ 4,553,883</u>



UNIVERSITY OF THE NATIONS, KONA, INC.

**Notes to the Consolidated Financial Statements**  
June 30, 2020 and 2019

**Note 8. LINE OF CREDIT**

The university also holds a \$1,000,000 line of credit with Central Pacific Bank available for short-term working capital needs. Any loan under this line of credit is at the bank base rate of interest plus 0.25% and is secured by all assets of the university. On June 1, 2020, the University borrowed \$200,000 under this line of credit to maintain cash levels during the COVID-19 pandemic and repaid the full amount on September 1, 2020. Total interest expense on the line of credit was \$714 for the year ended June 30, 2020.

**Note 9. ENDOWMENTS**

The endowments include both donor-restricted endowment funds as well as funds designated by the Board of Trustees to act as endowments.

The University has invested its donor-restricted endowment fund in debt-free condominiums in the Hualalai Village project (See Note 5). As of June 30, 2020 and 2019, these permanently restricted endowment assets amounted to \$1,770,000.

Undistributed earnings from the donor-restricted assets retain their classification as donor-restricted, to be distributed according to the purposes of the restrictions. In the year ended June 30, 2020, net earnings were \$52,210 and scholarship disbursements were \$24,000. The available balance of these donor-restricted earnings was \$120,027 at June 30, 2020.

Endowments Without Donor Restrictions were authorized by the Board of Trustees and have been invested in a condominium to provide earnings to fund scholarships for residents of Hawaii Island. On June 30, 2020, these assets totaled \$236,278 and the net income from this condominium for the year ended June 30, 2020, was \$10,081. The available balance of these board-restricted earnings was \$12,194 at June 30, 2020.

UNIVERSITY OF THE NATIONS, KONA, INC.

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**Note 9. ENDOWMENTS (continued)**

Changes are shown in the following chart:

	Without Donor Restrictions	With Donor Restrictions	With Donor Restrictions Through Perpetuity	Total
<b>Endowment Assets June 30, 2018</b>	\$150,000	\$94,719	\$1,770,000	\$2,014,719
Investment Return:				
Net Rental Income	2,413	60,250	-	62,663
Endowment Increase	74,084	-	-	74,084
Appropriation of Endowment Assets for Expenditure	-	(63,652)	-	(63,652)
<b>Endowment Assets June 30, 2019</b>	\$226,497	\$91,317	\$1,770,000	\$2,087,814
Investment Return:				
Net Rental Income	10,081	52,210	-	62,291
Endowment Increase	-	500	-	500
Appropriation of Endowment Assets for Expenditure	(300)	(24,000)	-	(24,300)
<b>Endowment Assets June 30, 2020</b>	<u>\$236,278</u>	<u>\$120,027</u>	<u>\$1,770,000</u>	<u>\$2,126,305</u>

*Interpretation of the law*

The Board of Trustees of the University has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies net assets with restrictions through perpetuity as (a) the original value of gifts donated to the permanent endowment, and (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift.

The remaining portion of the donor-restricted endowment fund that is not classified in net assets with restrictions through perpetuity is classified as net assets with restrictions until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, management considers in its determination to appropriate or accumulate donor restricted endowment funds the following factors:

1. The duration and preservation of the fund
2. The purposes of the organization and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the University
7. The investment policies of the University

UNIVERSITY OF THE NATIONS, KONA, INC.

**Notes to the Consolidated Financial Statements**

June 30, 2020 and 2019

**Note 9. ENDOWMENTS (continued)**

*Return Objectives and Risk Parameters*

The University has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding while still maintaining value of the endowed assets. The University's endowment assets are invested in such a way that will generate a long-term, predictable rate of return from rental income (net of expenses).

*Strategies Employed for Achieving Objectives*

In order to meet the endowment's return objectives, the Board of Trustees has stipulated that the fixed monthly rental amount received by the University for each condominium unit is to be used for the benefit of the endowment fund.

*Spending Policy*

It is the policy of the University that it may distribute the entire amount of earnings from the endowment assets in accordance with restrictions established by the endowment donors, which are exclusively to fund student scholarships.

**Note 10. CONCENTRATION OF RISK**

The University maintains its cash accounts at Central Pacific Bank. These balances exceed the Federal Deposit Insurance Corporation (FDIC) insured limit per corporate depositor. Management acknowledges the possibility of risk in this arrangement; however, the size and the longevity of the depository institution minimize such risk.

The following represents a summary of cash balances as of June 30, 2020 and 2019:

	2020	2019
Fully Insured	\$ 250,000	\$ 250,000
Uninsured and Uncollateralized	2,050,662	2,887,739
Total	<u>\$ 2,300,662</u>	<u>\$ 3,137,739</u>

The University's endowment investments are concentrated in the Hualalai Village condominium development. (Notes 5, 9, and 11) Also, a large portion of the fundraising for the University is conducted by Loren Cunningham, the president and co-founder of the University of the Nations, Kona, Inc. The University does not believe that these concentrations represent a material risk of loss with respect to its financial position.

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**Notes to the Consolidated Financial Statements**

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**Note 11. INVESTMENTS**

The Organization follows FASB standard ASC 820-10-50-1 which establishes a hierarchy for inputs to be used in measuring fair market value. This maximizes the use of observable inputs and minimizes the use of unobservable inputs. Observable inputs are those that market participants would use in pricing the asset or liability based on the best information available in each circumstance.

This fair value hierarchy consists of three broad levels:

- Level 1 inputs consist of unadjusted quoted prices in active markets such as stock exchanges for identical assets.
- Level 2 inputs consist of significant other observable inputs such as quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset and liability, either directly or indirectly, for substantially the full term of a financial instrument.
- Level 3 inputs consist of significant unobservable inputs and include situations where there is little, if any, market activity for the investment. The inputs require significant judgment or estimates, such as those associated with discounted cash flow methodologies and appraisals.

Fair values of the Hualalai Condominiums measured on a recurring basis at June 30, 2020 and 2019 are summarized in the following chart:

	Quoted Prices Level 1	Significant Other Inputs Level 2	Significant Unobservable Inputs: Level 3	Total
June 30, 2019	\$ -	\$ -	\$2,565,000	\$2,565,000
June 30, 2020	\$ -	\$ -	\$2,910,000	\$2,910,000

The Hualalai Condominiums measured at level 3 are based on the real estate value capped at the contractual price per deed restrictions. The increase in value occurring during the year ending June 30, 2020 was the result of purchasing an additional condominium unit for \$345,000.

There are no other assets or liabilities measured at fair value on a recurring or non-recurring basis.

**Note 12. DONATED SERVICES, MATERIALS, AND FACILITIES**

In Fiscal Year Ending June 30, 2020, the University remodeled one existing classroom and also placed into service a new classroom. Donated labor in addition to the purchase costs of construction was capitalized accordingly. The University also received a donation of two vehicles during the year. Total in-kind donations of \$30,584 were recorded on the books to reflect the estimated value of these donations as required by FASB standard ASC 958-605-25-16. (See Note 2, *Contributions and Donations in Kind*.)

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**Note 13. RECENT ACCOUNTING PRONOUNCEMENTS**

In May 2014, the FASB issued *ASU 2014-09: Revenue from Contracts with Customers*, which requires an entity to recognize revenue from the transfer of promised goods or services in an amount that reflects the consideration the entity expects to receive for those goods or services. An entity also should disclose sufficient information to enable financial statements users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from its contracts with customers. Due to the COVID-19 pandemic the effective date of this standard has been postponed by the FASB to the fiscal year ending June 30, 2021. Management does not expect the adoption of these provisions to have a significant impact on the financial statements.

In February 2016, the FASB issued *ASU 2016-02: Leases*, which requires lessees, among other changes, to recognize most leases on the balance sheet as assets and liabilities as well as provide additional qualitative and quantitative disclosures. This standard has also been postponed by the FASB and is now effective for the University's fiscal year ending June 30, 2023, but early adoption is permitted and mandates a modified retrospective transition method. Management is currently evaluating the impact of these provisions on the financial statements, but expects ASU 2016-02 to add significant assets and liabilities to the statement of financial position.

The University has adopted FASB ASU 2018-08, *Not-for-Profit Entities (Topic 958), Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The ASU clarifies and improves guidance for contributions received and contributions made, and provides guidance to organizations on how to account for certain exchange transactions. This change is preferable in that it clarifies whether to account for transactions as contributions or as exchange transactions. In addition, it clarifies whether a contribution is conditional. As a result, it enhances comparability of financial information among not-for-profit entities. This implementation had no effect on the financial statements.

The University has adopted ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. This implementation had no effect on the financial statements.

**Note 14. CONTINGENT LIABILITY**

In April, 2020, Hawaii County building inspectors visited the campus and subsequently required permits for a number of structures that did not have them, mainly classroom tents and outlying service buildings. The University agreed with the County to determine those structures for which it would pursue permits and those planned for relocation or removal. An agreed timeline is being negotiated with the County and although the University is at risk of fines for structures not removed by the timeline, management expects to be able to meet such agreed-upon timeline.

**Note 15. IMPACT OF COVID-19**

On March 23, 2020, the University suspended all classes and outreaches due to the COVID-19 pandemic which in turn negatively impacted tuition, outreach services, and liquidity for the rest of the fiscal year. The campus reopened with one training course in July, another in August, and nine more in late September. The campus is not yet operating at normal capacity.

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**Notes to the Consolidated Financial Statements**  
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**Note 15. IMPACT OF COVID-19 (continued)**

On May 4, 2020, the University received loan proceeds in the amount of \$87,500 under the U.S. Government Paycheck Protection Program (“PPP”). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act (“CARES Act”), provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The loans and accrued interest are forgivable as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent, and utilities, and maintains its payroll levels. The unforgiven portion of the PPP loan is payable over two years at an interest rate of 1%, with a deferral of payments for the first six months.

By June 30, 2020, the University had used the loan proceeds for purposes consistent with the PPP and substantially met the requirements for forgiveness. Consistent with FASB ASC 958-605 for non-profit entities, it has recorded the loan proceeds as a contribution for the fiscal year ended June 30, 2020

**Note 16. SUBSEQUENT EVENTS**

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through October 9, 2020, the date the financial statements are available for use.

In August of 2020, the board of International Christian Schools (ICS), a Christian non-profit K-12 school based in Kailua-Kona, Hawaii, decided to dissolve and merge its assets and operations with those of the University. The Board of the University has agreed to the arrangement and transfer of the ICS assets to the University is pending.

Subsequent to year end, the COVID-19 pandemic was still ongoing. The United States economy was negatively affected and the financial markets have experienced significant losses due to the outbreak. At the time these financial statements were available to be issued, the situation remained very volatile and the full effect of the pandemic on the operations of the University could not be determined.