

**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, 2021 AND 2020

**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, 2021 and 2020, 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 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**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the University of the Nations, Kona, Inc. as of June 30, 2021 and 2020, 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 and Management Group*

Kona, Hawaii  
November 30, 2021

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

## Consolidated Statements of Financial Position

As of June 30, 2021 and 2020

**ASSETS**

	2021	2020
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents (Notes 2 and 10)	\$ 3,611,751	\$ 2,300,662
Cash Advances (Note 2)	313,318	10,800
Accounts Receivable, Net (Note 2)	76,171	25,052
Inventory (Note 2)	12,486	18,384
Prepaid Expenses	9,352	13,575
Total Current Assets	4,023,078	2,368,473
<b>FIXED ASSETS (Note 2)</b>		
Land	9,319,312	9,291,209
Buildings	29,632,697	29,650,252
Furniture and Equipment	1,469,027	1,168,052
Vehicles	603,620	611,870
Assets in Progress	4,903,144	4,704,453
Less Accumulated Depreciation	(11,204,117)	(10,214,113)
Net Fixed Assets	34,723,683	35,211,723
<b>NON-CURRENT ASSETS</b>		
Restitution Receivable (Note 3)	197,687	197,687
Investments in Hualalai Condominiums (Notes 5, 9, and 11)	2,910,000	2,910,000
Total Non-Current Assets	3,107,687	3,107,687
<b>TOTAL ASSETS</b>	<b>\$ 41,854,448</b>	<b>\$ 40,687,883</b>

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

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

## Consolidated Statements of Financial Position

As of June 30, 2021 and 2020

**LIABILITIES AND NET ASSETS**

	2021	2020
<b>CURRENT LIABILITIES</b>		
Accounts Payable and Accrued Expenses	\$ 760,496	\$ 704,110
Mortgages Payable - Current Portion (Note 7)	178,375	170,578
Line of Credit Payable (Note 8)	-	200,000
Ahualani Note Payable (Note 5)	180,000	250,000
Deferred Tuition and Fees Revenue (Note 2)	1,145,066	587,374
Total Current Liabilities	2,263,937	1,912,062
<b>LONG-TERM LIABILITES</b>		
Mortgages Payable (Note 7)	4,204,118	4,383,305
Total Long-Term Liabilities	4,204,118	4,383,305
<b>TOTAL LIABILITIES</b>	6,468,055	6,295,367
<b>NET ASSETS (Note 4)</b>		
Net Assets Without Donor Restrictions	32,157,475	31,190,857
Net Assets With Donor Restrictions	3,228,918	3,201,659
Total Net Assets	35,386,393	34,392,516
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 41,854,448</b>	<b>\$ 40,687,883</b>

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, 2021 and 2020

	2021			2020		
	Without Donor Restrictions	With Donor Restrictions	Total 2021	Without Donor Restrictions	With Donor Restrictions	Total 2020
<b>REVENUES AND OTHER SUPPORT</b>						
Student and Staff Fees, Net	\$ 7,975,046	\$ -	\$ 7,975,046	\$ 11,874,682	\$ -	\$ 11,874,682
Contributions and Support	1,049,510	11,457,618	12,507,128	478,450	11,871,823	12,350,273
Sales and Other Revenue	343,475	-	343,475	574,016	-	574,016
Loss on Disposition of Assets (Note 14)	(363,337)	-	(363,337)	-	-	-
Net Rental Income on Investments in Hualalai Condominiums, Net (Notes 5 and 9)	22,097	54,946	77,043	10,761	52,210	62,971
Donations In-Kind (Note 12)	-	-	-	30,584	-	30,584
Net Assets Released from Restrictions	11,485,305	(11,485,305)	-	11,389,711	(11,389,711)	-
Total Public Support and Revenue	20,512,096	27,259	20,539,355	24,358,204	534,322	24,892,526
<b>EXPENSES</b>						
Program Expense	18,009,827	-	18,009,827	22,155,163	-	22,155,163
Management and General Expenses	1,359,545	-	1,359,545	2,038,493	-	2,038,493
Fundraising Expense	176,106	-	176,106	281,503	-	281,503
Total Expenses	19,545,478	-	19,545,478	24,475,159	-	24,475,159
<b>CHANGE IN NET ASSETS</b>	<b>966,618</b>	<b>27,259</b>	<b>993,877</b>	<b>(116,955)</b>	<b>534,322</b>	<b>417,367</b>
NET ASSETS, BEGINNING OF YEAR	31,190,857	3,201,659	34,392,516	31,307,812	2,667,337	33,975,149
NET ASSETS, END OF YEAR	\$ 32,157,475	\$ 3,228,918	\$ 35,386,393	\$ 31,190,857	\$ 3,201,659	\$ 34,392,516

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, 2021 and 2020

	2021			2020				
	Program Services	Management and General	Fundraising	Total 2021	Program Services	Management and General	Fundraising	Total 2020
Missionary Payments	\$ 10,057,960	\$ -	\$ -	\$ 10,057,960	\$ 9,807,142	\$ -	\$ -	\$ 9,807,142
Outreach Services	2,599,066	-	-	2,599,066	4,015,820	-	-	4,015,820
Occupancy	1,145,689	204,385	13,625	1,363,699	1,500,212	267,630	17,842	1,785,684
Depreciation Expense	929,226	232,307	-	1,161,533	943,492	235,874	-	1,179,366
Contracted Services	483,503	387,097	96,775	967,375	613,117	490,867	122,717	1,226,701
Food and Household	666,711	166,678	-	833,389	1,432,248	358,062	-	1,790,310
Schools and Programs	549,109	41,352	-	590,461	929,239	69,977	-	999,216
Donations	579,757	-	-	579,757	1,081,715	-	-	1,081,715
Interest Expense (Note 7)	168,606	42,151	-	210,757	184,546	46,137	-	230,683
Merchant Fees	140,960	60,413	-	201,373	222,117	95,194	-	317,311
Information Technology	129,470	39,925	29,944	199,339	302,373	93,245	69,934	465,552
Supplies and Small Equipment	149,096	39,723	9,931	198,750	364,112	97,009	24,252	485,373
Travel	103,169	25,792	-	128,961	289,078	72,270	-	361,348
Equipment Rental and Maintenance	95,731	24,332	1,217	121,280	106,323	27,023	1,351	134,697
Cost of Sales and Services	98,227	5,192	-	103,419	136,535	7,216	-	143,751
Printing and Publications	46,498	6,038	7,850	60,386	146,714	19,050	24,773	190,537
Legal and Professional	4,608	39,172	2,304	46,084	13,377	113,702	6,688	133,767
Telephone	35,234	8,920	446	44,600	43,042	10,896	546	54,484
Accounting	-	30,096	-	30,096	-	29,117	-	29,117
Postage and Shipping	10,453	5,972	13,438	29,863	9,143	5,224	11,754	26,121
Bad Debt Expense	11,568	-	-	11,568	-	-	-	-
Promotional	5,186	-	576	5,762	14,818	-	1,646	16,464
<b>Total Operating Expenses</b>	<b>\$ 18,009,827</b>	<b>\$ 1,359,545</b>	<b>\$ 176,106</b>	<b>\$ 19,545,478</b>	<b>\$ 22,155,163</b>	<b>\$ 2,038,493</b>	<b>\$ 281,503</b>	<b>\$ 24,475,159</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, 2021 and 2020

	<u>2021</u>	<u>2020</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in Net Assets	\$ 993,877	\$ 417,367
Expense Items Not Requiring Current Cash:		
Depreciation	1,161,533	1,179,366
Decrease in Cash Advances	-	560,698
Bad Debts Expense	11,568	-
Loss on Disposition, Sale of Assets	363,337	9,826
Decrease in Prepaid Expenses	4,223	7,817
Decrease in Inventory	5,898	-
Increase in Accounts Payable and Accrued Expenses	56,386	-
Cash Received Not Related to Income or Expense:		
Decrease in Accounts Receivable	-	44,155
Decrease in Notes Receivable	-	25
Increase in Deferred Revenue	557,692	-
Income Items Not Creating Current Cash:		
Decrease in Deferred Revenue	-	(996,426)
Donations In-Kind	-	(30,584)
Increase in Accounts Receivable	(62,687)	-
Cash Paid Not Related to Current Income or Expense:		
Increase in Cash Advances	(302,518)	-
Decrease in Accounts Payable and Accrued Expenses	-	(723,720)
Increase in Inventory	-	(390)
Net Cash Provided by Operating Activities	<u>\$ 2,789,309</u>	<u>\$ 468,134</u>

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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, 2021 and 2020

<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	<b>2021</b>	<b>2020</b>
Gross Proceeds from Sale of Assets	\$ 2,000	\$ 7,000
Purchases of Property and Equipment, Net of \$0 and \$30,584 in Donated Labor and Vehicles for the year ended June 30, 2021 and June 30, 2020, respectively	(1,038,830)	(1,386,687)
Investment in Condos	-	(345,000)
Net Cash Used by Investing Activities	<u>(1,036,830)</u>	<u>(1,724,687)</u>
 <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net Reduction in Mortgages Payable	(171,390)	(30,524)
Increase or (Decrease) in Line of Credit Payable	(200,000)	200,000
Increase or (Decrease) in Ahualani Note Payable	(70,000)	250,000
Net Cash Provided (Used) by Financing Activities	<u>(441,390)</u>	<u>419,476</u>
 <b>NET INCREASE (DECREASE) IN CASH FOR THE YEAR</b>	<b>1,311,089</b>	<b>(837,077)</b>
 <b>BEGINNING CASH AND CASH EQUIVALENTS BALANCE</b>	<u>2,300,662</u>	<u>3,137,739</u>
 <b>ENDING CASH AND CASH EQUIVALENTS BALANCE</b>	<u><b>\$ 3,611,751</b></u>	<u><b>\$ 2,300,662</b></u>

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

## UNIVERSITY OF THE NATIONS, KONA, INC.

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

### **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 as well as a preschool and elementary school for members of the Kailua-Kona community.

The University contracts with outside firms and 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. The Contributions and Support category is comprised of donations made to the University's general fund and programs, as well as donations to support the volunteer missionaries working both on the campus and 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, Hawaii, 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 for the year ended June 30, 2020 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 Consolidated Financial Statements

June 30, 2021 and 2020

**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 Statements of Activities as “Net Assets Released from Restrictions”.

*Cash and Cash Equivalents:* For the purpose of the Statements 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 \$169,400 and \$244,424 as of June 30, 2021 and 2020, respectively. Management has recorded an allowance for doubtful accounts equal to 55% and 90% of those receivables as of June 30, 2021 and 2020, respectively. Management considers these percentages to be reasonable based on the University’s recent 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 fiscal year 2022 tuition, housing fees, and outreach fees in advance and not yet earned.

*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.)

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

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

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

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

*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**

*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. As of June 30, 2021 the remaining balance from this receivable was \$197,687. However, the full remaining court-ordered restitution of \$3,025,881 is collectable by the University at some future date. See Note 17 for subsequent event.

**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, 2021 and 2020 they consist of the following:

	<u>2021</u>	<u>2020</u>
Board-Designated Endowment for Hawaii Island Scholarships	\$ 244,416	\$ 236,278
Undesignated Net Assets	31,913,059	30,954,579
Total Net Assets Without Donor Imposed Restrictions	<u>\$ 32,157,475</u>	<u>\$ 31,190,857</u>

- (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".

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

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

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

(c) 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 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, 2021 and 2020:

	2021	2020
Ministry Funds	\$ 993,759	\$ 1,010,933
Available Endowment Earnings (Note 9)	156,973	120,027
Financial Aid and Other Scholarships	71,209	107,998
Building Funds	100,459	102,745
International Funds	136,518	89,956
Total Net Assets With Non-Perpetual Donor Restrictions	<u>1,458,918</u>	<u>1,431,659</u>
Net Assets With Donor Restriction through Perpetuity		
Scholarships Endowment Funds (Note 9)	<u>1,770,000</u>	<u>1,770,000</u>
Total Net Assets With Perpetual Donor Restrictions	<u>1,770,000</u>	<u>1,770,000</u>
Total Net Assets With Donor Restrictions	<u>\$ 3,228,918</u>	<u>\$ 3,201,659</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.

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

Notes to the Consolidated Financial Statements

June 30, 2021 and 2020

**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, 2021 and June 30, 2020, 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. In the fiscal year ended June 30, 2021, \$70,000 was repaid to Ahualani leaving a balance of \$180,000.

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

Financial assets available for general expenditures within one year, at June 30, 2021 and 2020 were:

	<u>2021</u>	<u>2020</u>
Cash and Cash Equivalents	\$ 3,611,751	\$ 2,300,662
Cash Advances	313,318	10,800
Accounts Receivable, Net	76,171	25,052
Total Financial Assets	<u>4,001,240</u>	<u>2,336,514</u>
Less Amounts Unavailable for General Expenditures:		
Donor Restricted Financial Assets	(1,458,918)	(1,431,659)
Board Designated Financial Assets for Hawaiian Scholarship	<u>(20,332)</u>	<u>(12,194)</u>
Financial Assets Available to Meet Cash Needs		
General Expenditures Within One Year	<u>\$ 2,521,990</u>	<u>\$ 892,661</u>

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

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

**Note 7. LONG TERM DEBT**

As of June 30, 2021 and 2020 long-term debt consisted of the following:

	<u>2021</u>	<u>2020</u>
Central Pacific Bank Loan-1 carries interest rate of 4.0% and monthly payment \$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.	\$ 4,064,169	\$ 4,223,551
Less Current	<u>(165,910)</u>	<u>(158,571)</u>
Net Long-Term Debt	<u>3,898,259</u>	<u>4,064,980</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.	318,324	330,332
Less Current	<u>(12,465)</u>	<u>(12,007)</u>
Net Long-Term Debt	<u>305,859</u>	<u>318,325</u>
Total Long-Debt	<u>\$ 4,204,118</u>	<u>\$ 4,383,305</u>

Total interest expense on long-term debt was \$199,515 and \$222,393 for the years ended June 30, 2021, and 2020, respectively.

As of June 30, 2021, estimated maturities of long-term debt were:

<u>Fiscal Year</u>	
2022	\$ 178,375
2023	186,489
2024	194,974
2025	468,196
2026	198,597
Thereafter	<u>3,155,862</u>
	<u>\$ 4,382,493</u>

**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.



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

Notes to Consolidated Financial Statements

June 30, 2021 and 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, 2021 and 2020, 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, 2021, net earnings were \$54,946 and scholarship disbursements were \$18,000. The available balance of these donor-restricted earnings was \$156,973 at June 30, 2021.

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, 2021 these assets totaled \$244,416 and the net income from this condominium for the year ended June 30, 2021 was \$8,138. The available balance of these board-restricted earnings was \$20,332 at June 30, 2021.

Changes are shown in the following chart:

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>With Donor Restrictions Through Perpetuity</b>	<b>Total</b>
<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 net assets June 30, 2020</b>	\$ 236,278	\$ 120,027	\$ 1,770,000	\$ 2,126,305
Investment Return:				
Net Rental Income	8,138	54,946	-	63,084
Endowment Increase	-	-	-	-
Appropriation of Endowment Assets for Expenditure	-	(18,000)	-	(18,000)
<b>Endowment net assets June 30, 2021</b>	<u>\$ 244,416</u>	<u>\$ 156,973</u>	<u>\$ 1,770,000</u>	<u>\$ 2,171,389</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 donor-restricted endowment funds as of the gift date absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies as Net Assets With Restrictions Through Perpetuity (a) the original value of gifts donated to the permanent endowment, (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.

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Notes to Consolidated Financial Statements

June 30, 2021 and 2020

**Note 9. ENDOWMENTS (continued)**

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

*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.

*Funds with Deficiencies*

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 University to retain as a fund of perpetual duration. In accordance with Generally Accepted Accounting Principles, deficiencies of this nature are reported in Net Assets With Donor Restrictions.

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

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

**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, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Fully Insured Deposits	\$ 250,000	\$ 250,000
Uninsured and Uncollateralized	<u>3,361,751</u>	<u>2,050,662</u>
	<u>\$ 3,611,751</u>	<u>\$ 2,300,662</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.

**Note 11. INVESTMENTS**

The University 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.

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

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

**Note 11. INVESTMENTS (continued)**

Fair values of the Hualalai Condominiums measured on a recurring basis at June 30, 2021 and 2020 are summarized in the following chart:

	Quoted Prices: Level 1	Significant Other Inputs: Level 2	Significant Non- Observable Inputs: Level 3	Total
June 30, 2020	\$ -	\$ -	\$ 2,910,000	\$ 2,910,000
June 30, 2021	\$ -	\$ -	\$ 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. See Note 5.

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*.)

**Note 13. RECENT ACCOUNTING PRONOUNCEMENTS**

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.

**Note 14. COUNTY INSPECTOR ACTION AND CONTINGENT LIABILITY**

In April of 2020, Hawaii County building inspectors visited the campus and subsequently required permits for a number of structures that did not have them. The University agreed with the County to determine those structures for which it would pursue permits and those planned for relocation or removal.

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

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

**Note 14. COUNTY INSPECTOR ACTION AND CONTINGENT LIABILITY (continued)**

As a result, five temporary housing units which had been constructed in 2018 and 2019 were demolished in November of 2020 resulting in a net book loss of \$363,337. Some outlying service structures were also demolished as a result of the County action but had already been fully depreciated in prior fiscal years.

An agreed timeline is being negotiated with the County for the remainder of the questioned structures. 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 that fiscal year. The campus reopened with one training course in July of 2020, another in August, 2020, and nine more in late September, 2020. Additional progress was made until resuming full capacity in September, 2021.

Several outbreaks of COVID-19 have occurred on the University campus, resulting in quarantines of various levels for campus residents and a regular reviews of campus protocols by the County and/or campus leadership. Classes in FYE 2021 were accomplished through a combination of online technology and in-person learning. Outreach activities commencing in December of 2020 were limited to the United States but subsequent outreaches have gone to foreign countries where COVID-19 restrictions are minimal as well as locations in Hawaii and the U.S. mainland.

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 was established as part of the Coronavirus Aid, Relief and Economic Security Act (“CARES Act”). The loans and accrued interest were forgivable as long as the borrower used the loan proceeds for eligible purposes, including payroll, benefits, rent, and utilities, and also maintained its payroll levels.

By June 30, 2020, the University had substantially met the requirements for forgiveness. Consistent with FASB ASC 958-605 for non-profit entities, it recorded the loan proceeds as a contribution for the fiscal year ended June 30, 2020. The loan was officially forgiven in the fiscal year ended June 30, 2021.

**Note 16. ACQUISITION OF INTERNATIONAL CHRISTIAN SCHOOLS**

In August of 2020, the board of International Christian Schools (ICS) which operated a Christian non-profit K-12 school in Kailua-Kona, as well as a preschool on the University campus, decided to dissolve and turn over its net assets and operations to the University. The transfer of ICS assets and liabilities to the University was accomplished in February, 2021, and a donation for the net amount of \$60,982 was recorded for the fiscal year ended June 30, 2021. All operating revenue and expenses after the effective date of the transfer are included as part of the regular operations of the University.

The Preschool had a condo with a related mortgage. The University sold one of their condos to pay off the mortgage and acquire the new Preschool condo. The net results of these transactions were minimal to the financial position of the University.

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

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

**Note 17. SUBSEQUENT EVENTS**

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through November 30, 2021, the date the financial statements are available for use.

*Mortgage Reduction:* As the result of a special fund-raising campaign, additional payments totaling \$753,850 were paid to Central Pacific Bank between July 1 and November 30, 2021, to reduce the University's mortgage debt.

A \$500,000 interest-free loan was also tendered to the University as a result of this campaign. \$150,000 of this was used to further reduce the mortgage at Central Pacific Bank and \$350,000 was applied to finance campus construction activities. This interest-free loan requires payments of \$5,000 monthly for 100 months and repayment commenced on September 1, 2021.

In addition to the above payments, \$1,110,000 from general operations was paid to Central Pacific Bank in October, 2021, to further reduce the mortgage debt.

*Restitution Receivable:* As indicated in Note 3, the University lost \$3,128,194 in a fraud scheme discovered in 2017. \$102,313 had been recovered through the fiscal year ended 2021, but in September of 2021 the University was notified by the U.S. Marshals' Service that an additional \$352,556 had been recovered and deposited with the Clerk of Court in Honolulu on behalf of the University. Those funds were received in October 2021 and used to further reduce the campus mortgage debt.

**Note 18. ADOPTED ACCOUNTING PRONCEMENTS**

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 was postponed by the FASB to the fiscal year ending June 30, 2021. This implementation had no effect on the financial statements.

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