

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

AUDITED FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITORS' REPORT

FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

UNIVERSITY OF THE NATIONS, KONA, INC.

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INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the accompanying financial statements of University of the Nations, Kona, Inc. (a nonprofit corporation), which comprise the statements of financial position as of June 30, 2023 and 2022, 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 financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of the Nations, Kona, Inc. as of June 30, 2023 and 2022, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of University of the Nations, Kona, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about University of the Nations, Kona, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

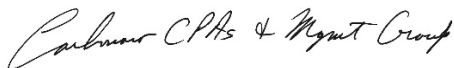
Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 University of the Nations, Kona, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about University of the Nations, Kona, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.



Kailua-Kona, Hawai'i
November 27, 2023

UNIVERSITY OF THE NATIONS, KONA, INC.

Statements of Financial Position

As of June 30, 2023 and 2022

ASSETS		
	<u>2023</u>	<u>2022</u>
CURRENT ASSETS		
Cash and Cash Equivalents (Notes 2 and 11)	\$ 2,991,446	\$ 2,538,208
Cash Advances (Note 2)	469,009	364,361
Accounts Receivable, Net (Note 3)	243,698	234,008
Contribution Receivable	2,500	250,000
Inventory (Note 2)	100,939	29,267
Prepaid Expenses	69,038	60,192
Total Current Assets	<u>3,876,630</u>	<u>3,476,036</u>
FIXED ASSETS (Note 2)		
Land and Improvements	2,708,415	2,192,340
Buildings	34,835,402	28,098,051
Furniture and Equipment	1,587,876	1,254,335
Vehicles	630,012	603,143
Software	874,594	570,005
Less: Accumulated Depreciation and Amortization	<u>(13,660,493)</u>	<u>(12,385,576)</u>
Net Operating Fixed Assets	26,975,806	20,332,298
Assets in Progress	940,667	5,912,606
Land Under Development (Note 4)	8,903,561	8,831,786
Total Fixed Assets	<u>36,820,034</u>	<u>35,076,690</u>
OTHER NON-CURRENT ASSETS		
Investments in Hualalai Condominiums (Notes 6 and 10)	<u>2,910,000</u>	<u>2,910,000</u>
Total Other Non-Current Assets	<u>2,910,000</u>	<u>2,910,000</u>
TOTAL ASSETS	<u>\$ 43,606,664</u>	<u>\$ 41,462,726</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 1,067,313	\$ 891,099
Long-Term Debt - Current Portion (Note 8)	60,000	73,895
Line of Credit (Note 9)	152,000	-
Deferred Tuition and Fees Revenue (Note 2)	1,695,340	1,702,223
Total Current Liabilities	<u>2,974,653</u>	<u>2,667,217</u>
LONG-TERM LIABILITES		
Long-Term Debt (Note 8)	<u>330,000</u>	<u>656,570</u>
Total Long-Term Liabilities	<u>330,000</u>	<u>656,570</u>
TOTAL LIABILITIES	3,304,653	3,323,787
NET ASSETS (Notes 2 and 5)		
Net Assets Without Donor Restrictions	37,223,873	35,003,533
Net Assets With Donor Restrictions	3,078,138	3,135,406
Total Net Assets	<u>40,302,011</u>	<u>38,138,939</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 43,606,664</u>	<u>\$ 41,462,726</u>

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

UNIVERSITY OF THE NATIONS, KONA, INC.
Statements of Activities and Changes in Net Assets
For the Years Ended June 30, 2023 and 2022

	Without Donor Restrictions	With Donor Restrictions	2023 Total	Without Donor Restrictions	With Donor Restrictions	2022 Total
REVENUE AND OTHER SUPPORT						
Student and Staff Fees, Net	\$ 16,974,754	\$ -	\$ 16,974,754	\$ 14,501,301	\$ -	\$ 14,501,301
Contributions and Support	446,029	13,555,002	14,001,031	1,018,315	14,459,914	15,478,229
Donated Construction Services (Note 14)	1,440,903	-	1,440,903	-	-	-
Sales and Other Revenue	856,379	-	856,379	688,767	-	688,767
Loss on Disposal of Assets	(6,883)	-	(6,883)	(78,599)	-	(78,599)
Gain on Restitution	-	-	-	154,869	-	154,869
Net Lease Income on Investments in Hualalai Condominiums (Notes 6 and 10)	15,725	50,046	65,771	35,179	61,669	96,848
Net Assets Released from Restrictions	13,662,316	(13,662,316)	-	14,615,095	(14,615,095)	-
Total Public Support and Revenue	33,389,223	(57,268)	33,331,955	30,934,927	(93,512)	30,841,415
EXPENSES						
Program Expense	28,575,335	-	28,575,335	26,038,177	-	26,038,177
Management and General Expenses	2,343,424	-	2,343,424	1,853,088	-	1,853,088
Fundraising Expense	250,124	-	250,124	197,604	-	197,604
Total Expenses	31,168,883	-	31,168,883	28,088,869	-	28,088,869
CHANGE IN NET ASSETS	2,220,340	(57,268)	2,163,072	2,846,058	(93,512)	2,752,546
NET ASSETS, BEGINNING OF YEAR	35,003,533	3,135,406	38,138,939	32,157,475	3,228,918	35,386,393
NET ASSETS, END OF YEAR	\$ 37,223,873	\$ 3,078,138	\$ 40,302,011	\$ 35,003,533	\$ 3,135,406	\$ 38,138,939

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

UNIVERSITY OF THE NATIONS, KONA, INC.
Statements of Functional Expenses
For the Years Ended June 30, 2023 and 2022

	Supporting Services				Supporting Services			
	Program Services	Management and General	Fundraising	2023 Total	Program Services	Management and General	Fundraising	2022 Total
Missionary Payments	\$ 11,876,036	\$ -	\$ -	\$ 11,876,036	\$ 11,571,911	\$ -	\$ -	\$ 11,571,911
Outreach Services	6,802,733	-	-	6,802,733	6,087,605	-	-	6,087,605
Food and Household	2,201,808	550,452	-	2,752,260	1,509,790	377,448	-	1,887,238
Occupancy	1,837,453	328,116	21,874	2,187,443	1,504,010	268,308	17,887	1,790,205
Contracted Services	745,698	596,558	149,139	1,491,395	544,332	435,466	108,866	1,088,664
Donations	1,410,423	-	-	1,410,423	1,448,306	-	-	1,448,306
Depreciation and Amortization Expense	1,039,067	259,767	-	1,298,834	946,033	236,509	-	1,182,542
Schools and Programs	1,086,467	81,777	-	1,168,244	926,211	69,750	-	995,961
Merchant Fees	327,159	140,211	-	467,370	271,190	116,226	-	387,416
Supplies and Small Equipment	302,762	80,737	20,184	403,683	316,338	84,281	21,070	421,689
Travel	319,638	80,221	-	399,859	204,571	51,143	-	255,714
Information Technology	170,480	52,455	39,341	262,276	158,579	48,902	36,677	244,158
Equipment Rental and Maintenance	176,824	44,765	2,238	223,827	134,568	34,202	1,711	170,481
Cost of Sales and Services	196,237	10,373	-	206,610	231,996	12,263	-	244,259
Legal and Professional	8,805	74,839	4,402	88,046	6,078	51,666	3,039	60,783
Telephone	27,849	7,051	353	35,253	33,404	8,457	423	42,284
Accounting	-	28,642	-	28,642	-	38,261	-	38,261
Printing and Publications	19,632	2,550	3,315	25,497	14,892	1,934	2,514	19,340
Postage and Shipping	7,044	4,025	9,056	20,125	3,582	2,047	4,606	10,235
Bad Debt Expense	13,687	-	-	13,687	52,581	-	-	52,581
Interest Expense (Notes 8 and 9)	3,535	885	-	4,420	64,899	16,225	-	81,124
Promotional	1,998	-	222	2,220	7,301	-	811	8,112
Total Expenses	\$ 28,575,335	\$ 2,343,424	\$ 250,124	\$ 31,168,883	\$ 26,038,177	\$ 1,853,088	\$ 197,604	\$ 28,088,869

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

UNIVERSITY OF THE NATIONS, KONA, INC.

Statements of Cash Flows

For the Years Ended June 30, 2023 and 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ 2,163,072	\$ 2,752,546
Less: Donated Construction Services (Note 14)	(1,440,903)	-
Expense Items Not Requiring Current Cash:		
Depreciation and Amortization	1,298,834	1,182,542
Bad Debts Expense	13,687	52,581
Loss on Disposal of Assets	6,883	78,599
Increase in Accounts Payable and Accrued Expenses	176,214	130,603
Cash Received Not Related to Income or Expense:		
Decrease in Restitution Receivable	-	197,687
Decrease in Contributions Receivable	247,500	-
Increase in Deferred Tuition and Fees Revenue	-	557,157
Income Items Not Creating Current Cash:		
Increase in Accounts Receivable	(9,690)	(210,418)
Increase in Contributions Receivable	-	(250,000)
Decrease in Deferred Tuition and Fees Revenue	(6,883)	-
Cash Paid Not Related to Current Income or Expense:		
Increase in Cash Advances	(104,648)	(51,043)
Increase in Prepaid Expenses	(8,846)	(50,840)
Increase in Inventory	(71,672)	(16,781)
Net Cash Provided by Operating Activities	2,263,548	4,372,633
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Operating Fixed Assets, Net	(702,079)	(571,816)
Purchases for Assets in Progress	(847,991)	(1,009,462)
Purchases for Land Under Development	(71,775)	(32,870)
Net Cash (Used In) Investing Activities	(1,621,845)	(1,614,148)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of Long-Term Debt	(340,465)	(3,652,028)
Proceeds from Line of Credit (Note 9)	700,000	1,000,000
Repayment of Line of Credit (Note 9)	(548,000)	(1,000,000)
Repayment of Ahualani Note Payable	-	(180,000)
Net Cash (Used In) Financing Activities	(188,465)	(3,832,028)
NET INCREASE (DECREASE) IN CASH FOR THE YEAR	453,238	(1,073,543)
BEGINNING CASH AND CASH EQUIVALENTS BALANCE	2,538,208	3,611,751
ENDING CASH AND CASH EQUIVALENTS BALANCE	\$ 2,991,446	\$ 2,538,208
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING ACTIVITIES:		
Donated Construction Services (Note 14)	\$ 1,440,903	\$ -

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

UNIVERSITY OF THE NATIONS, KONA, INC.

Notes to the Financial Statements

June 30, 2023 and 2022

Note 1. ORGANIZATION

The University of the Nations, Kona, Inc. (the University) is a private Christian educational institution located in Kailua-Kona, Hawai‘i, founded in 1978. It is affiliated with Youth With A Mission, an international Christian missions organization, and thus also operates under the name “YWAM Kona”. The organization trains individuals to become Christian missionaries.

The University utilizes a modular class approach where 12 week lecture phases are typically followed by a 10 to 12 week practicum, often in a foreign country. The University offers its classes on a calendar quarterly basis. The University also operates a preschool and elementary school for children of staff members and the Kailua-Kona community.

The University contracts with outside firms and agencies for certain key functions, but is otherwise staffed by volunteer 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, 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.

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.

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

UNIVERSITY OF THE NATIONS, KONA, INC.

Notes to the Financial Statements

June 30, 2023 and 2022

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 staff members 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, except in the case of outreach cash advances which are charged to the period in which the expenses are incurred.

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 Hawai'i 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 and improvements, buildings, furniture and equipment, software and vehicles are stated at cost or the fair value at date of donation. Major renewals and improvements are capitalized. Management capitalizes items over \$5,000 with a useful life greater than 1 year. Depreciation and amortization is provided over the estimated useful lives of the assets using the straight-line method, which range from 3 to 50 years.

The University reviews its fixed assets for impairment whenever events or changes indicate that the carrying value of an asset may not be recoverable. The University compares the carrying value to its fair value to determine whether an impairment loss has occurred. For the year ended June 30, 2023, no impairment loss has been recognized.

Deferred Tuition and Fees Revenue: School fees received in advance of a scheduled course are refundable to the student if they do not start the course, and thus are not recorded as a revenue until the course commences. Similarly, students are required to pay in advance for outreaches and internships that occur after their classes end and these also are only recognized as revenue in the period when the outreach activity occurs. Such fees received in advance are thus shown on the financial statements as a liability until duly earned.

Leases

The University adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 2016-02 Topic 842, *Leases*, which supersedes FASB ASC Topic 840, *Leases*, and makes other conforming amendments to U.S. GAAP. FASB ASC 2016-02 Topic 842 requires, among other changes to the lease accounting guidance, lessees to recognize most leases on the statement of financial position via a right-of-use (ROU) asset and lease liability as well as additional qualitative and quantitative disclosures.

UNIVERSITY OF THE NATIONS, KONA, INC.

Notes to the Financial Statements

June 30, 2023 and 2022

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

Beginning on July 1, 2022, operating lease assets and liabilities are measured and recorded at the present value of the future minimum lease payments. The determination of whether an arrangement is a lease is made at the lease's inception. An arrangement is (or contains) a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is defined under the standard as having both the right to obtain substantially all of the economic benefits from use of the asset and the right to direct the use of the asset. Management only reassesses its determination if the terms and conditions of the contract are changed. If the interest rate implicit in its leases is not readily determinable, the University uses the incremental borrowing rate on its line of credit to determine the present value of lease payments. Leases with an initial term of twelve (12) months or less are not recorded on the statement of financial position.

The University adopted these ASUs effective July 1, 2022 and utilized all of the available practical expedients. The adoption had no impact on the University's statement of financial position nor statement of activities and changes in net assets.

Contributions and Donations In-Kind: 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, or for capital assets in the period capitalized.

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.

Reclassifications: Certain account balances in the 2022 financial statements have been reclassified for comparative purposes to conform to the 2023 financial statement presentation. These had no effect on the Total Assets or Change in Net Assets figures reported for 2022.

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. 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 3. ACCOUNTS RECEIVABLE, NET

Accounts Receivable primarily represents student and staff fees owed to the University. The Accounts Receivable gross balance from students and staff was \$388,046 and \$371,542 as of June 30, 2023 and 2022, respectively. Management has recorded an allowance for doubtful accounts equal to 37.2% and 37.0% of those receivables as of June 30, 2023 and 2022, respectively. Management considers these percentages to be reasonable based on the University's recent rates of collection.

UNIVERSITY OF THE NATIONS, KONA, INC.

Notes to the Financial Statements

June 30, 2023 and 2022

Note 4. LAND UNDER DEVELOPMENT

Land Under Development represents land acquired for future use but not yet put into service. Zoning and development costs are added to the original acquisition costs but are not be amortized until the corresponding parcels are put into service.

As of June 30, 2023, the balance of \$8,903,561 consists of the 57 acre parcel of land where the University acquired the rights in 2009 immediately south of the presently developed campus for \$8,158,064 plus additional costs for zoning hearings and development costs. Additionally, the balance consists of a house purchased in Kailua-Kona for \$428,530 in January 2023 intended to be used as a future ministry center. The house itself is being razed due to its condition and the entire cost of acquisition is assigned to the land alone. Although the University assisted in the financial arrangements for the house, the project is being funded by contributions specifically donated for this purpose.

Note 5. 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, 2023 and 2022 they consist of the following:

	<u>2023</u>	<u>2022</u>
Board-Designated Endowment for Hawaii Island Scholarships	\$ 258,914	\$ 250,073
Undesignated Net Assets	<u>36,964,959</u>	<u>34,753,460</u>
Total Net Assets Without Donor Imposed Restrictions	<u>\$ 37,223,873</u>	<u>\$ 35,003,533</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 Statement of Activities as “Net Assets Released from Restrictions”.
- (c) 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.

UNIVERSITY OF THE NATIONS, KONA, INC.

Notes to the Financial Statements

June 30, 2023 and 2022

Note 5. NET ASSETS (concluded)

Net Assets With Donor Restrictions consist of the following as of June 30:

	2023	2022
Ministry Funds	\$ 746,526	\$ 822,809
Available Endowment Earnings (Note 10)	203,025	192,793
Financial Aid and Other Scholarships	40,075	79,073
Building Funds	68,693	74,431
International Funds	249,819	196,300
Total Net Assets With Non-Perpetual Donor Restrictions	1,308,138	1,365,406
Net Assets With Donor Restriction through Perpetuity		
Scholarships Endowment Funds (Note 9)	1,770,000	1,770,000
Total Net Assets With Perpetual Donor Restrictions	1,770,000	1,770,000
Total Net Assets With Donor Restrictions	\$ 3,078,138	\$ 3,135,406

Note 6. 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 which was paid off in the fiscal year ended June 30, 2023.

The University leases the units to staff generally under 1-year terms 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 historical cost. As of both June 30, 2023 and 2022, this cost 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.

UNIVERSITY OF THE NATIONS, KONA, INC.

Notes to the Financial Statements

June 30, 2023 and 2022

Note 6. RELATED PARTY TRANSACTIONS (concluded)

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, Hawai'i, whose President was Loren Cunningham, the former President and co-founder of University of the Nations, Kona, Inc. Mr. Cunningham stepped down as President of the University on July 31, 2022. Loan proceeds were used for University construction purposes and were based on a commitment of a donor to contribute \$250,000 to the University. \$70,000 was repaid to Ahualani in the fiscal year ended June 30, 2021, and the balance of \$180,000 was repaid in the fiscal year ended June 30, 2022.

YWAM Ships Kona Memorandum of Understanding

In June of 2022, the University entered into a binding Memorandum of Understanding with YWAM Ships Orange County Inc., a California corporation operating under the name YWAM Ships Kona, and whose main operating facility is in Kailua-Kona, Hawai'i. The MOU grants each party free use of the other's property including the furnishing of meals, protects each other from any liabilities, and prohibits any legal action against the other arising out of these activities and uses. Karen Curtis, the University's board chair, is the spouse of Brett Curtis, the president of YWAM Ships Kona, and both serve as senior elders of the University.

Note 7. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

Financial assets available for general expenditures within one year were as follows, as of June 30:

	<u>2023</u>	<u>2022</u>
Cash and Cash Equivalents	\$ 2,991,446	\$ 2,538,208
Cash Advances	469,009	364,361
Accounts Receivable, Net	243,698	234,008
Contribution Receivable	2,500	250,000
Total Financial Assets	<u>3,706,653</u>	<u>3,386,577</u>
Less Amounts Unavailable for General Expenditures:		
Donor Restricted Financial Assets	(1,308,138)	(1,365,406)
Board Designated Financial Assets for Hawaiian Scholarship	<u>(23,914)</u>	<u>(25,989)</u>
Financial Assets Available to Meet Cash Needs		
General Expenditures Within One Year	<u><u>\$ 2,374,601</u></u>	<u><u>\$ 1,995,182</u></u>

UNIVERSITY OF THE NATIONS, KONA, INC.

Notes to the Financial Statements

June 30, 2023 and 2022

Note 8. LONG-TERM DEBT

As of June 30, 2023 and 2022, long-term debt consisted of the following:

	2023	2022
Interest-free, unsecured note payable to an individual, due in monthly installments of \$5,000, through December 1, 2029.	\$ 390,000	\$ 450,000
Less: Current portion	(60,000)	(60,000)
Long-Term Debt	330,000	390,000
The Hualalai Condo Mortgage carried a fixed interest rate of 3.75%, monthly payments of \$2,016, and a maturity date of September 2024. The balance was fully repaid in September 2022.	-	280,465
Less: Current portion	-	(13,895)
Long-Term Debt	-	266,570
Total Long-Term Debt	\$ 390,000	\$ 730,465

Total interest expense on long-term debt was \$3,750 and \$81,124 for the years ended June 30, 2023 and 2022, respectively.

Estimated maturities of long-term debt were as follows as of June 30:

Fiscal Year	Amount
2024	\$ 60,000
2025	60,000
2026	60,000
2027	60,000
2028	60,000
Thereafter	90,000
	\$ 390,000

UNIVERSITY OF THE NATIONS, KONA, INC.

Notes to the Financial Statements

June 30, 2023 and 2022

Note 9. 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 savings accounts interest rate plus 2.5% and is secured by an assignment to the lender of a depository account held by the University.

On January 28, 2022, the University borrowed \$1,000,000 under the line of credit and repaid it on February 4, 2022. It borrowed \$500,000 on July 15, 2022 to facilitate annual insurance payments and repaid it on August 16, 2022. It borrowed \$200,000 on January 25, 2023, in connection with the purchase of a ministry house in Kailua-Kona and repaid \$48,000 by June 30, 2023, leaving a balance of \$152,000 at fiscal year-end. This was subsequently paid off and the line of credit closed on August 10, 2023.

Total interest expense paid on the line of credit was \$670 and \$491 for the years ended June 30, 2023 and 2022, respectively.

Note 10. 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. As of June 30, 2023 and 2022, 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, 2023, net earnings were \$44,313 and scholarship disbursements were \$34,081. The available balance of these donor-restricted earnings was \$203,025 at June 30, 2023.

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 Hawai'i Island. On June 30, 2023 these assets totaled \$258,914 and the net income from this condominium for the year ended June 30, 2023 was \$8,841. The available balance of these board-restricted earnings was \$23,914 at June 30, 2023.

UNIVERSITY OF THE NATIONS, KONA, INC.

Notes to the Financial Statements

June 30, 2023 and 2022

Note 10. ENDOWMENTS (continued)

Changes are shown in the following table:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>With Donor Restrictions Through Perpetuity</u>	<u>Total</u>
Endowment Assets June 30, 2021	\$ 244,416	\$ 156,973	\$ 1,770,000	\$ 2,171,389
Investment Return:				
Net Lease Income	10,471	61,669	-	72,140
Endowment Increase	-	-	-	-
Appropriation of Endowment Assets for Expenditure	<u>(4,814)</u>	<u>(25,849)</u>	<u>-</u>	<u>(30,663)</u>
Endowment Assets June 30, 2022	\$ 250,073	\$ 192,793	\$ 1,770,000	\$ 2,212,866
Investment Return:				
Net Lease Income	8,841	44,313	-	53,154
Endowment Increase	-	-	-	-
Appropriation of Endowment Assets for Expenditure	<u>-</u>	<u>(34,081)</u>	<u>-</u>	<u>(34,081)</u>
Endowment Assets June 30, 2023	<u>\$ 258,914</u>	<u>\$ 203,025</u>	<u>\$ 1,770,000</u>	<u>\$ 2,231,939</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.

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:

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

UNIVERSITY OF THE NATIONS, KONA, INC.

Notes to the Financial Statements

June 30, 2023 and 2022

Note 10. ENDOWMENTS (concluded)

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.

Note 11. 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.

The following represents a summary of cash balances as of June 30:

	<u>2023</u>	<u>2022</u>
Fully Insured Deposits	\$ 250,000	\$ 250,000
Uninsured and Uncollateralized	<u>2,741,446</u>	<u>2,288,208</u>
	<u>\$ 2,991,446</u>	<u>\$ 2,538,208</u>

The University's endowment investments are concentrated in the Hualalai Village condominium development. The University does not believe that this concentration represents a material risk of loss with respect to its financial position.

UNIVERSITY OF THE NATIONS, KONA, INC.

Notes to the Financial Statements

June 30, 2023 and 2022

Note 12. SOLAR POWER PURCHASE AGREEMENT

In 2015, the University entered into an agreement with a vendor to purchase the energy output of a solar energy facility located on the University campus. The University was not required to make any investment in the energy facility other than to purchase the energy at the rate of monthly production multiplied by \$0.23 cents per kilowatt hour. The initial term of the agreement was for 20 years from the effective date upon installation with a 3 year option to extend the service period. As of June 30, 2023, the energy facility is non-functioning and the University intends to purchase the equipment to refurbish. The agreement was determined not to be a lease under ASC 842: *Leases* as the University does not have the ability to make decisions on the operations of the system and does not have the right to direct the use of the system.

Note 13. LEASES

The University leases property and equipment under operating and finance leases in order to fulfill its mission.

Hualalai Village Condominium Ground Leases: The University owns ten (10) individual condominium units in Hualalai Village. In association with condominium ownership, the University has entered into 99-year ground leases for each condominium unit. Total future lease payments for the 10 units is approximately \$4,800 per year for an average of ninety (90) years. The University is not reasonably certain to retain condominium ownership through perpetuity. Management has determined the total present value of finance lease payments is de minimis to the financial statements as a whole and no finance lease ROU assets or lease liabilities are reflected in the financial statements. Maturities of Hualalai Village condominium ground lease payments is as follows:

2024	\$	4,800
2025		4,800
2026		4,800
2027		4,800
2028		4,800
Thereafter		<u>408,000</u>
		<u>\$ 432,000</u>

Off-Campus Home Lease: The University has rented a house in the Kailua-Kona area to handle overflow staff housing needs. The term of the lease agreement is from April 2023 to March 2024 with monthly lease payments of \$7,000. The lease contains an option to renew for one-year periods but management is reasonably certain not to renew this lease.

Parking Space Lease: The University has a lease agreement with Kamehameha Schools to use a 30 foot wide strip of land along the northern border of the campus to use for a driveway and parking area. The term of the lease agreement with Kamehameha Schools was from February 2013 to February 2018 and is now month-to-month with an annual lease payment of one-dollar (\$1). Either party has the option to terminate the lease with thirty (30) days written notice. No amounts have been reflected in the financial statements for the donated portion of the lease inasmuch as no objective basis is available to measure the value of its use.

UNIVERSITY OF THE NATIONS, KONA, INC.

Notes to the Financial Statements

June 30, 2023 and 2022

Note 13. LEASES (concluded)

Equipment Finance Leases: In addition, the University leases office equipment (printers, copiers, and a postage machine) and dishwashers under finance leases with varying expiration dates through September 2025 for which the remaining lease term is less than one-year or the present value of future lease payments is de minimis. Maturities of equipment finance lease payments is as follows as of June 30:

2024	\$ 35,380
2025	<u>1,611</u>
	<u>\$ 36,991</u>

Note 14. DONATED CONSTRUCTION SERVICES

Since its inception, the University has benefitted from the services of construction workers who have come to the campus to volunteer their time and skills in building and remodeling its buildings.

In the year ended June 30, 2023, the University finished construction and received its certificate of occupancy for the first and third floors of the Defender Building. It accordingly capitalized donated labor of \$1,200,000 in addition to the purchased costs of construction, and recorded an in-kind donation in this amount to reflect the estimated value of the donation. The second floor of the building serves as the Aloha Cafeteria and has been open since 2014.

Similarly, other projects on campus completed during the year resulted in \$240,903 being capitalized for donated labor and corresponding in-kind donations being recorded.

Note 15. RECENT ACCOUNTING PRONOUNCEMENTS

In June 2016, the FASB issued ASU 2016-13, Financial Instruments—Credit Losses (Topic 326), *Measurement of Credit Losses on Financial Instruments*. The standard's main goal is to improve financial reporting by requiring earlier recognition of credit losses on financing receivables and other financial assets in scope. For entities that have adopted the amendments in ASU 2016-13, the amendments in this update are effective for fiscal years beginning after December 15, 2022. The provisions are effective for the University's fiscal year ending June 30, 2024. Management is currently evaluating the impact that the adoption of these provisions will have on the financial statements.

UNIVERSITY OF THE NATIONS, KONA, INC.

Notes to the Financial Statements

June 30, 2023 and 2022

Note 16. SUBSEQUENT EVENTS

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through November 27, 2023, the date the financial statements were available to be issued.

One event of note was the passing of Loren Cunningham, the co-founder of the University on October 6, 2023. Given the de-centralized structure of the University and the passing of leadership to David Hamilton in 2022, this event is not expected to have any appreciable effect on the operation of the University as a whole.

There were no other recognized subsequent events, events that provide additional evidence about conditions that existed at the Statement of Financial Position date, non-recognized subsequent events, or events that provide evidence about conditions that did not exist at the Statement of Financial Position date, which are necessary to disclose to keep the financial statements from being misleading.