

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

**AUDITED FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITOR'S REPORT**

FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

UNIVERSITY OF THE NATIONS, KONA, INC.

Contents

	Page
Independent Auditor's Report	1
Financial Statements:	
Statements of Financial Position	3
Statements of Activities and Changes in Net Assets	4
Statements of Functional Expenses	5
Statements of Cash Flows	6
Notes to Financial Statements	7

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees and Management of
University of the Nations, Kona, Inc.
Kailua-Kona, Hawaii 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, 2022 and 2021, 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, 2022 and 2021, 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 Auditor's 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.

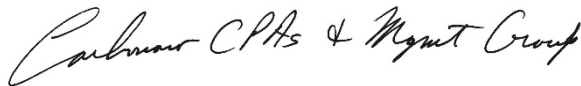
Auditor's Responsibilities for the Audit of the Financial Statements

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 auditor's 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.



Kona, Hawaii
November 30, 2022

UNIVERSITY OF THE NATIONS, KONA, INC.

Statements of Financial Position

As of June 30, 2022 and 2021

ASSETS

	<u>2022</u>	<u>2021</u>
CURRENT ASSETS		
Cash and Cash Equivalents (Notes 2 and 10)	\$ 2,538,208	\$ 3,611,751
Cash Advances (Note 2)	364,361	313,318
Accounts Receivable, Net (Note 2)	234,008	76,171
Contribution Receivable	250,000	-
Inventory (Note 2)	29,267	12,486
Prepaid Expenses	60,192	9,352
Total Current Assets	<u>3,476,036</u>	<u>4,023,078</u>
FIXED ASSETS (Note 2)		
Land	9,352,182	9,319,312
Buildings	29,769,995	29,632,697
Furniture and Equipment	1,824,340	1,469,027
Vehicles	603,143	603,620
Assets in Progress	5,912,606	4,903,144
Less Accumulated Depreciation	<u>(12,385,576)</u>	<u>(11,204,117)</u>
Net Fixed Assets	35,076,690	34,723,683
NON-CURRENT ASSETS		
Restitution Receivable (Note 3)	-	197,687
Investments in Hualalai Condominiums (Notes 5 and 9)	<u>2,910,000</u>	<u>2,910,000</u>
Total Non-Current Assets	<u>2,910,000</u>	<u>3,107,687</u>
TOTAL ASSETS	<u><u>\$ 41,462,726</u></u>	<u><u>\$ 41,854,448</u></u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 891,099	\$ 760,496
Notes Payable - Current Portion (Note 7)	73,895	178,375
Ahualani Note Payable - Related Party (Note 5)	-	180,000
Deferred Tuition and Fees Revenue (Note 2)	<u>1,702,223</u>	<u>1,145,066</u>
Total Current Liabilities	2,667,217	2,263,937
LONG-TERM LIABILITIES		
Notes Payable (Note 7)	<u>656,570</u>	<u>4,204,118</u>
Total Long-Term Liabilities	656,570	4,204,118
TOTAL LIABILITIES	<u>3,323,787</u>	<u>6,468,055</u>
NET ASSETS (Note 4)		
Net Assets Without Donor Restrictions	35,003,533	32,157,475
Net Assets With Donor Restrictions	<u>3,135,406</u>	<u>3,228,918</u>
Total Net Assets	<u>38,138,939</u>	<u>35,386,393</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 41,462,726</u></u>	<u><u>\$ 41,854,448</u></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, 2022 and 2021

	2022		2021	
	Without Donor Restrictions	With Donor Restrictions	Without Donor Restrictions	With Donor Restrictions
		Total		Total
		2022		2021
REVENUE AND OTHER SUPPORT				
Student and Staff Fees, Net	\$ 14,501,301	\$ 14,501,301	\$ 7,975,046	\$ 7,975,046
Contributions and Support	1,018,315	15,478,229	1,049,510	12,507,128
Sales and Other Revenue	688,767	688,767	343,475	343,475
Loss on Disposal of Assets (Note 12)	(78,599)	(78,599)	(363,337)	(363,337)
Gain on Restitution (Note 3)	154,869	154,869	-	-
Net Rental Income on Investments in Hualalai Condominiums, Net (Notes 5 and 9)	35,179	96,848	22,097	77,043
Net Assets Released from Restrictions	14,615,095	-	11,485,305	(11,485,305)
Total Public Support and Revenue	30,934,927	30,841,415	20,512,096	20,539,355
EXPENSES				
Program Expense	26,038,177	26,038,177	18,009,827	18,009,827
Management and General Expenses	1,853,088	1,853,088	1,359,545	1,359,545
Fundraising Expense	197,604	197,604	176,106	176,106
Total Expenses	28,088,869	28,088,869	19,545,478	19,545,478
CHANGE IN NET ASSETS	2,846,058	(93,512)	966,618	27,259
NET ASSETS, BEGINNING OF YEAR	32,157,475	35,386,393	31,190,857	34,392,516
NET ASSETS, END OF YEAR	\$ 35,003,533	\$ 38,138,939	\$ 32,157,475	\$ 35,386,393

UNIVERSITY OF THE NATIONS, KONA, INC.
 Statements of Functional Expenses
 For the Years Ended June 30, 2022 and 2021

	2022			2021				
	Program Services	Management and General	Fundraising	Total 2022	Program Services	Management and General	Fundraising	Total 2021
Missionary Payments	\$ 11,571,911	\$ -	\$ -	\$ 11,571,911	\$ 10,057,960	\$ -	\$ -	\$ 10,057,960
Outreach Services	6,087,605	-	-	6,087,605	2,599,066	-	-	2,599,066
Food and Household	1,509,790	377,448	-	1,887,238	666,711	166,678	-	833,389
Occupancy	1,504,010	268,308	17,887	1,790,205	1,145,689	204,385	13,625	1,363,699
Donations	1,448,306	-	-	1,448,306	579,757	-	-	579,757
Depreciation Expense	946,033	236,509	-	1,182,542	929,226	232,307	-	1,161,533
Contracted Services	544,332	435,466	108,866	1,088,664	483,503	387,097	96,775	967,375
Schools and Programs	926,211	69,750	-	995,961	549,109	41,352	-	590,461
Supplies and Small Equipment	316,338	84,281	21,070	421,689	149,096	39,723	9,931	198,750
Merchant Fees	271,190	116,226	-	387,416	140,960	60,413	-	201,373
Travel	204,571	51,143	-	255,714	103,169	25,792	-	128,961
Cost of Sales and Services	231,996	12,263	-	244,259	98,227	5,192	-	103,419
Information Technology	158,579	48,902	36,677	244,158	129,470	39,925	29,944	199,339
Equipment Rental and Maintenance	134,568	34,202	1,711	170,481	95,731	24,332	1,217	121,280
Interest Expense (Note 7)	64,899	16,225	-	81,124	168,606	42,151	-	210,757
Bad Debt Expense	52,581	-	-	52,581	11,568	-	-	11,568
Telephone	33,404	8,457	423	42,284	35,234	8,920	446	44,600
Accounting	-	38,261	-	38,261	-	30,096	-	30,096
Printing and Publications	14,892	1,934	2,514	19,340	46,498	6,038	7,850	60,386
Legal and Professional	6,078	51,666	3,039	60,783	4,608	39,172	2,304	46,084
Postage and Shipping	3,582	2,047	4,606	10,235	10,453	5,972	13,438	29,863
Promotional	7,301	-	811	8,112	5,186	-	576	5,762
Total Operating Expenses	\$ 26,038,177	\$ 1,853,088	\$ 197,604	\$ 28,088,869	\$ 18,009,827	\$ 1,359,545	\$ 176,106	\$ 19,545,478

The accompanying notes are an integral part of these financial statements.
 Page 5

UNIVERSITY OF THE NATIONS, KONA, INC.

Statements of Cash Flows

For the Years Ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ 2,752,546	\$ 993,877
Expense Items Not Requiring Current Cash:		
Depreciation	1,182,542	1,161,533
Bad Debts Expense	52,581	11,568
Loss on Disposal, Sale of Assets	78,599	363,337
Increase in Accounts Payable and Accrued Expenses	130,603	56,386
Cash Received Not Related to Income or Expense:		
Decrease in Notes Receivable	197,687	-
Increase in Deferred Revenue	557,157	557,692
Income Items Not Creating Current Cash:		
Increase in Accounts Receivable	(210,418)	(62,687)
Increase in Contributions Receivable	(250,000)	-
Cash Paid Not Related to Current Income or Expense:		
Increase in Cash Advances	(51,043)	(302,518)
(Increase) Decrease in Prepaid Expenses	(50,840)	4,223
(Increase) Decrease in Inventory	(16,781)	5,898
Net Cash Provided by Operating Activities	<u>4,372,633</u>	<u>2,789,309</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Gross Proceeds from Sale of Assets	-	2,000
Purchases of Property and Equipment, Net	<u>(1,614,148)</u>	<u>(1,038,830)</u>
Net Cash (Used In) Investing Activities	<u>(1,614,148)</u>	<u>(1,036,830)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net Reduction in Notes Payable	(3,652,028)	(171,390)
Net Reduction in Line of Credit Payable (Note 8)	-	(200,000)
New Reduction in Ahualani Note Payable	<u>(180,000)</u>	<u>(70,000)</u>
Net Cash (Used In) Financing Activities	<u>(3,832,028)</u>	<u>(441,390)</u>
NET (DECREASE) INCREASE IN CASH FOR THE YEAR	(1,073,543)	1,311,089
BEGINNING CASH AND CASH EQUIVALENTS BALANCE	<u>3,611,751</u>	<u>2,300,662</u>
ENDING CASH AND CASH EQUIVALENTS BALANCE	<u><u>\$ 2,538,208</u></u>	<u><u>\$ 3,611,751</u></u>

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

UNIVERSITY OF THE NATIONS, KONA, INC.

Notes to Financial Statements

June 30, 2022 and 2021

Note 1. ORGANIZATION

The University of the Nations, Kona, Inc. (the University) is a private Christian educational institution located in Kailua-Kona, Hawaii, founded in 1978. It is affiliated with Youth With A Mission, an international Christian missions organization, and thus is also known and operates under the name “YWAM Kona”. The organization trains individuals to become Christian missionaries who fulfill the school’s motto: “To Know God and to Make Him Known”.

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 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 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, 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.

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 Financial Statements

June 30, 2022 and 2021

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.

Accounts Receivable: Accounts Receivable primarily represents student and staff fees owed to the University. The Accounts Receivable gross balance from students and staff was \$371,542 and \$169,400 as of June 30, 2022 and 2021, respectively. Management has recorded an allowance for doubtful accounts equal to 37% and 55% of those receivables as of June 30, 2022 and 2021, 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. Management capitalizes items over \$5,000 with a useful life greater than 1 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: 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.

UNIVERSITY OF THE NATIONS, KONA, INC.

Notes to Financial Statements

June 30, 2022 and 2021

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

Notes Receivable in the fiscal year ended June 30, 2021 consisted of one long-term receivable for \$197,687.

In 2017, the University discovered fraud on the part of the former CFO totaling \$3,128,194. The University recorded a \$300,000 receivable for assets seized by the court that were ordered liquidated and presented to the University. \$102,313 was recovered previously leaving a balance of \$197,687 at June 20, 2021. The U.S. government recovered an additional \$352,556 and remitted it to the University in October 2021 which closed out the receivable and resulted in \$154,869 of Restitution Income for the fiscal year ended June, 2022.

The full remaining court-ordered restitution of \$2,673,325 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, 2022 and 2021 they consist of the following:

	<u>2022</u>	<u>2021</u>
Board-Designated Endowment for Hawaii Island Scholarships	\$ 250,073	\$ 244,416
Undesignated Net Assets	<u>34,753,460</u>	<u>31,913,059</u>
Total Net Assets Without Donor Imposed Restrictions	<u>\$ 35,003,533</u>	<u>\$ 32,157,475</u>

UNIVERSITY OF THE NATIONS, KONA, INC.

Notes to the Financial Statements

June 30, 2022 and 2021

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 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.

Net Assets With Donor Restrictions consist of the following as of June 30, 2022 and 2021:

	2022	2021
Ministry Funds	\$ 822,809	\$ 993,759
Available Endowment Earnings (Note 9)	192,793	156,973
Financial Aid and Other Scholarships	79,073	71,209
Building Funds	74,431	100,459
International Funds	196,300	136,518
Total Net Assets With Non-Perpetual Donor Restrictions	1,365,406	1,458,918
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	\$ 3,135,406	\$ 3,228,918

UNIVERSITY OF THE NATIONS, KONA, INC.

Notes to the Financial Statements

June 30, 2022 and 2021

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.

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 the lower of cost or fair value. As of both June 30, 2022 and June 30, 2021 cost was below fair 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.. 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, granting each other free use of the other's property including the furnishing of meals, protecting each other from any liabilities, and prohibiting any legal action against each other arising out of the same.

UNIVERSITY OF THE NATIONS, KONA, INC.

Notes to Financial Statements

June 30, 2022 and 2021

Note 6. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

Financial assets available for general expenditures within one year, at June 30, 2022 and 2021 were:

	2022	2021
Cash and Cash Equivalents	\$ 2,538,208	\$ 3,611,751
Cash Advances	364,361	313,318
Accounts Receivable, Net	234,008	76,171
Contribution Receivable	250,000	-
Total Financial Assets	3,386,577	4,001,240
Less Amounts Unavailable for General Expenditures:		
Donor Restricted Financial Assets	(1,365,406)	(1,458,918)
Board Designated Financial Assets for Hawaiian Scholarship	(25,989)	(20,332)
Financial Assets Available to Meet Cash Needs		
General Expenditures Within One Year	\$ 1,995,182	\$ 2,521,990

Note 7. DEBT

As of June 30, 2022 and 2021, debt consisted of the following:

	2022	2021
Interest-free, unsecured note payable to an individual, due in monthly installments of \$5,000, through December 1, 2029.	\$ 450,000	\$ -
Current portion	(60,000)	-
Net Long-Term Debt	390,000	-

The Hualalai Condo Mortgage carries a fixed interest rate of 3.75% and monthly payments of \$2,016. the loan matures in September 2024. The balance was fully repaid in September 2022.

	280,465	318,324
Current portion	(13,895)	(12,465)
Net Long-Term Debt	266,570	305,859

Central Pacific Bank Loan-1 carried an interest rate of 4.0% and a monthly payment 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 matured in September 2024, and was secured by a first mortgage on the campus property. The balance was fully repaid in the fiscal year ended June 30, 2022.

	-	4,064,169
Current portion	-	(165,910)
Net Long-Term Debt	-	3,898,259
Total Debt	\$ 730,465	\$ 4,382,493

UNIVERSITY OF THE NATIONS, KONA, INC.

Notes to Financial Statements

June 30, 2022 and 2021

Note 7. DEBT (continued)

Total interest expense on debt was \$80,360 and \$199,515 for the years ended June 30, 2022, and 2021, respectively.

As of June 30, 2022, estimated maturities of debt were:

<u>Fiscal Year</u>	
2023	\$ 73,895
2024	326,570
2025	60,000
2026	60,000
2027	60,000
Thereafter	<u>150,000</u>
	<u>\$ 730,465</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 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 June 1, 2020 the University borrowed \$200,000 under the line of credit and repaid it on September 1, 2020. On January 28, 2022, the University borrowed \$1,000,000 under this line of credit and repaid it on February 4, 2022. Total interest expense on the line of credit was \$491 and \$714 for the years ended June 30, 2022 and 2021 respectively.

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, 2022 and 2021, 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, 2022, net earnings were \$61,669 and scholarship disbursements were \$25,849. The available balance of these donor-restricted earnings was \$192,793 at June 30, 2022.

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, 2022 these assets totaled \$250,073 and the net income from this condominium for the year ended June 30, 2022 was \$10,471 less disbursements of \$4,814. The available balance of these board-restricted earnings was \$25,989 at June 30, 2022.

UNIVERSITY OF THE NATIONS, KONA, INC.

Notes to Financial Statements

June 30, 2022 and 2021

Note 9. ENDOWMENTS (continued)

Changes are shown in the following chart:

	Without Donor Restrictions	With Donor Restrictions	With Donor Restrictions Through Perpetuity	Total
Endowment Assets June 30, 2020	\$ 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)
Endowment net assets June 30, 2021	\$ 244,416	\$ 156,973	\$ 1,770,000	\$ 2,171,389
Investment Return:				
Net Rental Income	10,471	61,669	-	72,140
Endowment Increase	-	-	-	-
Appropriation of Endowment Assets for Expenditure	(4,814)	(25,849)	-	(30,663)
Endowment net assets June 30, 2022	\$ 250,073	\$ 192,793	\$ 1,770,000	\$ 2,212,866

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 Financial Statements

June 30, 2022 and 2021

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.

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 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, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Fully Insured Deposits	\$ 250,000	\$ 250,000
Uninsured and Uncollateralized	2,288,208	3,361,751
	<u>\$ 2,538,208</u>	<u>\$ 3,611,751</u>

The University's endowment investments are concentrated in the Hualalai Village condominium development. (Notes 5, 9) 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 Financial Statements

June 30, 2022 and 2021

Note 11. RECENT ACCOUNTING PRONOUNCEMENTS

In February 2016, the Financial Accounting Standards Board 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. 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 12. CONTINGENT LIABILITY

County Inspector Action: 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.

As a result, five temporary housing units which had been constructed in 2018 and 2019 were demolished in the fiscal year ended June 30, 2021, 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. The University is not in full compliance with representations made to the county. Although the University is at risk of fines for structures not removed by the timeline, the county has allowed some flexibility and the matter remains under consideration.

Note 13. IMPACT OF COVID-19

On March 23, 2020, the University suspended all classes and outreaches due to the COVID-19 pandemic. The campus reopened with one training course in July of 2020, another in August, 2020, and nine more in late September, 2020 which in turn negatively impacted tuition, outreach services, and liquidity for the year ended June 30, 2021. Full capacity was restored for the year ended June 30, 2022.

On May 4, 2020, the University received forgivable loan proceeds in the amount of \$87,500 under the U.S. Government Paycheck Protection Program ("PPP"). Consistent with FASB ASC 958-605, it recorded the proceeds as a contribution for the year ended June 30, 2020. The loan was officially forgiven in the year ended June 30, 2021.

Note 14. 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.

UNIVERSITY OF THE NATIONS, KONA, INC.

Notes to Financial Statements

June 30, 2022 and 2021

Note 15. SUBSEQUENT EVENTS

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through November 30, 2022, the date the financial statements were available to be issued. There are no recognized subsequent events, events that provide additional evidence about conditions that existed at the Statement of Financial Position date, or 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.

Note 16. ADOPTED ACCOUNTING PROUNCEMENTS

Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets: In September 2020, the FASB issued ASU 2020-07, Not-for-Profit Entities (Topic 985): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets, effective for annual periods beginning after June 15, 2021. The provisions were effective for the University's fiscal year ended June 30, 2022. Topic 985 requires not-for-profit entities to "present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash and other financial assets" and disclose contributed nonfinancial assets. The University presents contributed nonfinancial assets as a separate line item in the Statement of Activities and Changes in Net Assets, with separate disclosure in these Notes to Financial Statements, and management has determined this Topic had no impact on its financial statements.