

# **LUNALILO HOME**

**FINANCIAL STATEMENTS  
For the Years Ended December 31, 2021 and 2020  
And Independent Auditor's Report**





## INDEPENDENT AUDITOR'S REPORT

Lunalilo Home:

### Report on the Audit of the Financial Statements

#### *Opinion*

We have audited the financial statements of Lunalilo Home (Lunalilo), a private operating foundation, which comprise the statements of financial position as of December 31, 2021 and 2020, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Lunalilo as of December 31, 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 (U.S. GAAP).

#### *Basis for Opinion*

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (U.S. GAAS). 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 Lunalilo 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 these financial statements in accordance with U.S. GAAP 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 Lunalilo's ability to continue as a going concern for one year after the date the financial statements are issued.

## *Auditor's Responsibility 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 U.S. GAAS 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 U.S. GAAS, 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 Lunalilo'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 Lunalilo'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 audits.

*CW ASSOCIATES, CPAs*

CW Associates, CPAs  
Honolulu, Hawaii  
November 28, 2022



# LUNALILO HOME

## STATEMENTS OF FINANCIAL POSITION

As of December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
CURRENT ASSETS		
Cash (including interest bearing accounts)	\$ 863,781	\$ 838,190
Funds held in trust for others	34,579	13,414
Accounts receivable – net	80,131	75,603
Accounts receivable, client trust – net	8,506	22,222
Investments	11,976,825	11,091,308
Prepaid expenses	55,419	92,410
Total current assets	13,019,241	12,133,147
PROPERTY AND EQUIPMENT – Net	3,822,963	4,035,412
TOTAL ASSETS	<u>\$ 16,842,204</u>	<u>\$ 16,168,559</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 227,402	\$ 84,333
Accrued liabilities	121,700	75,046
Due to others	5,086	5,086
Deferred revenue	23,425	-
Refundable advances	382,622	38,041
Notes payable – current	20,471	689,250
SBA PPP loan – current	-	320,892
Liability for funds held in trust for others	19,445	24,802
Total current liabilities	800,151	1,237,450
DUE TO OTHERS – Noncurrent	59,616	66,191
NOTES PAYABLE – Noncurrent	813,558	147,681
SBA PPP LOAN – Noncurrent	-	90,308
TOTAL LIABILITIES	<u>1,673,325</u>	<u>1,541,630</u>
NET ASSETS		
Net assets without donor restrictions		
Board designated	11,976,825	11,091,308
Undesignated	3,192,054	3,535,621
Total net assets without donor restrictions	15,168,879	14,626,929
Total net assets	15,168,879	14,626,929
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 16,842,204</u>	<u>\$ 16,168,559</u>

See accompanying notes to the financial statements.

# LUNALILO HOME

## STATEMENTS OF ACTIVITIES

For the Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
Revenue and support		
Program service fees – net of subsidies of \$478,978 and \$586,804 for 2021 and 2020, respectively	\$ 2,534,450	\$ 2,447,503
Investment income – net	1,240,777	1,144,905
Net assets released from donor restrictions	279,362	280,185
Grant revenue	140,333	1,313,263
Contributions without donor restrictions	112,574	102,579
Special events – net	45,749	51,013
Other income	102	42,159
Total revenue and support	<u>4,353,347</u>	<u>5,381,607</u>
Expenses		
Program services	3,532,075	3,286,566
Supporting services	690,522	1,097,071
Total expenses	<u>4,222,597</u>	<u>4,383,637</u>
Revenue and support over expenses	130,750	997,970
Gain on forgiveness of SBA PPP loan	411,200	-
Increase in net assets without donor restrictions	<u>541,950</u>	<u>997,970</u>
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS		
Contributions with donor restrictions	279,362	270,185
Net assets released from donor restrictions	<u>(279,362)</u>	<u>(280,185)</u>
Decrease in net assets with donor restrictions	<u>-</u>	<u>(10,000)</u>
INCREASE IN NET ASSETS	541,950	987,970
NET ASSETS – Beginning of year	<u>14,626,929</u>	<u>13,638,959</u>
NET ASSETS – End of year	<u>\$ 15,168,879</u>	<u>\$ 14,626,929</u>

See accompanying notes to the financial statements.

# LUNALILO HOME

## STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2021

	Program Services			Supporting Services			
	Adult Residential Care Home	Adult Day Care	Total Program Services	Management and General	Fund- Raising	Total Supporting Service	Total
Labor expenses							
Labor costs	\$1,632,220	\$217,309	\$1,849,529	\$251,146	\$ -	\$251,146	\$2,100,675
Labor benefits	168,642	25,820	194,462	46,828	-	46,828	241,290
Total labor expenses	1,800,862	243,129	2,043,991	297,974	-	297,974	2,341,965
Professional and contractor fees	581,184	-	581,184	111,353	-	111,353	692,537
Depreciation	231,680	17,361	249,041	34,620	-	34,620	283,661
Food supplies	232,450	-	232,450	-	-	-	232,450
Trustee compensation	-	-	-	129,463	-	129,463	129,463
Utilities	125,277	1,290	126,567	1,049	-	1,049	127,616
Facility management	117,052	166	117,218	1,428	-	1,428	118,646
Supplies	83,205	3,129	86,334	3,863	-	3,863	90,197
Insurance	63,759	4,458	68,217	21,440	-	21,440	89,657
Miscellaneous	18,913	1,249	20,162	42,383	361	42,744	62,906
Special events	-	-	-	-	34,682	34,682	34,682
Marketing and promotion	6,911	-	6,911	22,577	-	22,577	29,488
Interest	-	-	-	24,011	-	24,011	24,011
Bad debt	-	-	-	-	-	-	-
Total	3,261,293	270,782	3,532,075	690,161	35,043	725,204	4,257,279
Direct costs of special events netted with revenue and support	-	-	-	-	(34,682)	(34,682)	(34,682)
Total expenses	<u>\$3,261,293</u>	<u>\$270,782</u>	<u>\$3,532,075</u>	<u>\$690,161</u>	<u>\$ 361</u>	<u>\$690,522</u>	<u>\$4,222,597</u>

See accompanying notes to the financial statements.

# LUNALILO HOME

## STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2020

	Program Services			Supporting Services			
	Adult Residential Care Home	Adult Day Care	Total Program Services	Management and General	Fund- Raising	Total Supporting Service	Total
Labor expenses							
Labor costs	\$ 1,382,190	\$ 170,151	\$ 1,552,341	\$ 466,729	\$ -	\$ 466,729	\$ 2,019,070
Labor benefits	177,384	27,347	204,731	37,627	-	37,627	242,358
Total labor expenses	1,559,574	197,498	1,757,072	504,356	-	504,356	2,261,428
Professional and contractor fees	554,748	29,015	583,763	319,606	-	319,606	903,369
Depreciation	212,178	15,899	228,077	31,705	-	31,705	259,782
Food supplies	291,741	-	291,741	1,204	-	1,204	292,945
Trustee compensation	-	-	-	102,000	-	102,000	102,000
Utilities	115,334	1,983	117,317	13,518	-	13,518	130,835
Facility management	68,302	583	68,885	11,225	-	11,225	80,110
Supplies	151,537	5,598	157,135	16,343	-	16,343	173,478
Insurance	57,986	4,345	62,331	20,053	-	20,053	82,384
Miscellaneous	5,381	1,004	6,385	20,060	494	20,554	26,939
Special events	-	-	-	-	39,250	39,250	39,250
Marketing and promotion	-	-	-	26,573	-	26,573	26,573
Interest	-	-	-	29,934	-	29,934	29,934
Bad debt	13,860	-	13,860	-	-	-	13,860
Total	3,030,641	255,925	3,286,566	1,096,577	39,744	1,136,321	4,422,887
Direct costs of special events netted with revenue and support	-	-	-	-	(39,250)	(39,250)	(39,250)
Total expenses	<u>\$ 3,030,641</u>	<u>\$ 255,925</u>	<u>\$ 3,286,566</u>	<u>\$ 1,096,577</u>	<u>\$ 494</u>	<u>\$ 1,097,071</u>	<u>\$ 4,383,637</u>

See accompanying notes to the financial statements.

# LUNALILO HOME

## STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase in net assets	\$ 541,950	\$ 987,970
Adjustments to reconcile increase in net assets to net cash provided (used) by operating activities		
Depreciation	283,661	259,782
Restricted contributions for long-lived assets	-	(24,500)
Realized and unrealized gains on investments	(1,287,491)	(1,184,832)
Gain on forgiveness of SBA PPP loan	(411,200)	-
(Increase) decrease in		
Accounts receivable – net	(4,528)	66,338
Accounts receivable, client trust – net	13,716	(12,108)
Prepaid expenses	36,991	(36,803)
Increase (decrease) in		
Accounts payable	143,069	(25,410)
Accrued liabilities	46,654	(45,512)
Deferred revenue	23,425	(10,470)
Refundable advances	344,581	38,041
Net cash provided (used) by operating activities	<u>(269,172)</u>	<u>12,496</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Sales of investments	401,974	395,159
Purchases of property and equipment	(71,212)	(186,824)
Net cash provided by investing activities	<u>330,762</u>	<u>208,335</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Advances on line-of-credit	-	80,000
Payments on line-of-credit	-	(186,326)
Additions to SBA PPP loan	-	411,200
Additions to notes payable	687,000	150,000
Repayments of notes payable	(689,902)	(69)
Restricted contributions for long-lived assets	-	24,500
Funds held in trust for others – net	(26,522)	21,163
Due to others	(6,575)	(4,830)
Net cash provided (used) by financing activities	<u>(35,999)</u>	<u>495,638</u>
<b>NET INCREASE IN CASH</b>	25,591	716,469
<b>CASH – Beginning of year</b>	<u>838,190</u>	<u>121,721</u>
<b>CASH – End of year</b>	<u><u>\$ 863,781</u></u>	<u><u>\$ 838,190</u></u>
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Cash paid during the year for interest	\$ 23,787	\$ 27,204

See accompanying notes to the financial statements.



## LUNALILO HOME

### NOTES TO THE FINANCIAL STATEMENTS

**As of and for the Years Ended December 31, 2021 and 2020**

#### NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### Organization and Activity

Lunalilo Home (Lunalilo) was established by the will of the High Chief William Charles Lunalilo, who died in 1874 while he was King of the Hawaiian Islands. His will established a perpetual trust under the administration of three trustees to be appointed by a majority of the justices of the Hawaiian Supreme Court. The purpose of the trust was to "erect a fire proof building for the use and accommodation of the poor, destitute and infirm people of Hawaiian blood or extraction, giving preference to old people". Currently, the Trustees are appointed by the State of Hawaii Probate Court. To fulfill the purpose of the trust, Lunalilo owns and operates a long-term care facility in Honolulu, Hawaii, and provides other services such as adult day care services. The funds in the trust are used to subsidize the cost of services provided to qualifying individuals.

##### Basis of Presentation

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

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

*Net Assets with Donor Restrictions* consist of net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of Lunalilo or the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity (none in 2021 and 2020).

##### Use of Estimates

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates, it is reasonably possible that such estimates may change within the near term, and such differences could be material to the financial statements.

## **LUNALILO HOME**

### **NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**As of and for the Years Ended December 31, 2021 and 2020**

#### **NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### Concentrations of Credit Risk

Financial instruments that potentially subject Lunalilo to credit risk include cash, accounts receivable, and investments. Cash on deposit with financial institutions exceeded the related federal deposit insurance by approximately \$493,700 and \$591,100 at December 31, 2021 and 2020, respectively. Management evaluates the credit standings of the financial institutions to ensure that such deposits are adequately safeguarded. Accounts receivable, which have been reduced by estimated allowances for doubtful accounts (approximately \$107,000 at December 31, 2021 and 2020), are determined to be collectible or uncollectible based on an assessment by management of the facts and circumstances related to the individual accounts, including historical experience, an assessment of economic conditions, and a review of subsequent collections.

Lunalilo's investments are exposed to various risks, including interest rate, market, and credit risk. Investments are fully insured by federal and private insurance as represented by the custodian. Future changes in market prices may make such investments less valuable.

##### Funds Held in Trust for Others and Accounts Receivable, Client Trusts

Funds held in trust for others are monies collected and disbursed on behalf of residents for incidental expenses, whereby Lunalilo does not have unilateral power to redirect the use of the funds. A liability is recorded in the accompanying statements of financial position for these funds held in trust and is maintained until the monies are disbursed.

##### Investments

As of December 31, 2021 and 2020, Lunalilo held investments in a fund of common funds, which is a limited liability company that is classified as an alternative investment. At the investment manager's direction, the alternative investment allocates assets to meet the investment objective. The investments are primarily in global equity markets and global fixed income markets.

Lunalilo accounts for its ownership in this alternative investment under the equity method of accounting based on the shares held in the fund. The net asset value is determined based on the estimated fair value of the underlying investments less any liabilities. The fair value of certain underlying investments may have been estimated by its fund managers in the absence of readily determinable fair values. Due to the inherent uncertainty of these estimates, these values may differ from the values that would have been used had an active market for these investments existed. The investment income recorded is based on Lunalilo's proportionate share of the fund's portfolio net assets and included in investment income in the statements of activities.

## LUNALILO HOME

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

As of and for the Years Ended December 31, 2021 and 2020

#### NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### Property and Equipment

Property and equipment is stated at cost or, if contributed, at estimated fair market value at the date of contribution. Depreciation is provided using the straight-line method over estimated useful lives of three to 40 years for building and improvements, five to 10 years for furniture and equipment, and five years for vehicles. Property and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amounts may not be recoverable. Major improvements and expenditures for property and equipment in excess of \$500 are capitalized. Repairs and maintenance are expensed as incurred.

##### Revenue and Expense Recognition

Revenue is recognized when the goods or services are provided to the customer. Revenue is recognized for performance obligations satisfied over time or at a point in time. Investment income, gain on forgiveness of SBA PPP loan, and other income were derived from sources other than performance obligations. Lunalilo records special events revenue equal to the fair value of direct benefits provided to donors, and contribution income for the excess received when the event takes place. Program service fees include resident service fees, adult day care service fees, and food service fees.

##### *Resident Service Fees*

Resident service fee revenue is reported at the amount that reflects the consideration Lunalilo expects to receive in exchange for services provided. Performance obligations are determined based on the nature of the services provided. Resident service fee revenue is recognized as performance obligations are satisfied. Under the residency agreements, Lunalilo provides senior living services which are generally for a term of two days to 30 days for a stated daily or monthly fee. Lunalilo recognizes revenue from housing services under the residency agreements in accordance with the provisions of Accounting Standards Codification (ASC) 840, *Leases* as the resident is primarily provided room and board. Lunalilo recognizes revenue for skilled and intermediate care nursing services, assistance with activities of daily living, healthcare, and personalized health services in accordance with the provision of ASC 606, *Revenue from Contracts with Customers*. Lunalilo has determined that senior living services included in the daily or monthly fee have the same timing and pattern of transfer and are a series of distinct services that are considered one performance obligation, which is satisfied over time. Resident service fee revenue before subsidies was \$2,177,912 and \$2,380,892 for the years ended December 31, 2021 and 2020, respectively.

Native Hawaiians who satisfy the admission requirements and who demonstrate financial need are eligible to apply for resident service subsidies, subject to availability of funds. The subsidies are recorded as a reduction of resident service fee revenue.

## LUNALILO HOME

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

**As of and for the Years Ended December 31, 2021 and 2020**

#### NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### Revenue and Expense Recognition (continued)

###### *Adult Day Care Service Fees*

Lunalilo enters into contracts to provide adult day care services. Lunalilo recognizes revenue for adult day care services in accordance with the provisions of ASC 606. Each service provided under the contract is capable of being distinct, and thus, the services are considered individual and separate performance obligations, which are satisfied over time as services are provided. Adult day care service fee revenue was \$432,562 and \$300,471 for the years ended December 31, 2021 and 2020, respectively.

###### *Food Service Fees*

Food service fee revenue is recognized when the goods or services are provided to the consumer in accordance with the provisions of ASC 606. Revenue is recognized at the point in time that the performance obligation is satisfied. Food service fee revenue was \$402,954 and \$352,944 for the years ended December 31, 2021 and 2020, respectively.

###### *Expenses*

Expenses, including advertising expenses (\$29,488 and \$26,573 in 2021 and 2020, respectively), are recorded when the related liability is incurred. Lunalilo allocates its expenses on a functional basis among its various programs and supporting services. Expenses that can be identified with a program or supporting service are charged directly to the program or supporting service using natural expense classifications. Other expenses, such as depreciation, insurance, and utilities, that are common to several functions are allocated to the various programs and supporting services, based on such measures as square footage or full-time employees by department.

##### Grants

Lunalilo's grants and contracts are with the City and County of Honolulu, and private trusts and foundations and other entities. Lunalilo recognizes grants and contracts as either contributions or exchange transactions, depending on whether the transaction is reciprocal or nonreciprocal. Lunalilo's grants and contracts that are cost-reimbursable are considered to be conditional contributions.

For grants and contracts classified as conditional contributions, revenue is recognized when the conditions are met. Grant and contract agreements may contain a right of return or a right of release from obligation provision, and Lunalilo may have limited discretion over how funds transferred should be spent. As such, Lunalilo recognizes revenue for those conditional contributions when the related barriers have been overcome. For the cost-reimbursable grants and contracts, revenue is recognized to the extent of expenditures made in accordance with the related agreements (including expenditures for property and equipment, which are capitalized and depreciated for financial reporting purposes).

## **LUNALILO HOME**

### **NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**As of and for the Years Ended December 31, 2021 and 2020**

#### **NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### Grants (continued)

Revenue received in excess of such expenditures is reported as refundable advances. Qualifying expenditures incurred that have not yet been billed or received are reported as grants receivable (none in 2021 and 2020). Contributions for which the condition is met in the same reporting period are reported as net assets without donor restrictions.

Lunalilo was awarded cost-reimbursable grants of approximately \$400,800 that have not been recognized as of December 31, 2021 because qualifying expenditures have not yet been incurred.

Grants classified as exchange transactions are recorded as revenue without donor restrictions when the goods or services are provided as stipulated in the grant or contract agreement and the performance obligations have been met. There were no grants treated as exchange transactions for the years ended December 31, 2021 and 2020.

##### Donor Contributions

Lunalilo recognizes contributions when cash, securities, or other assets; an unconditional promise to give; or notification of a beneficial interest is received. Conditional promises to give, those with a measurable performance or other barrier and a right of return, are not recognized until the conditions on which they depend have been met.

Contributions received are recorded as increases in net assets without donor restrictions or net assets with donor restrictions depending on the existence and/or nature of any donor restrictions. Support is considered to be available for unrestricted use unless restricted by the donor. Donor restricted support is reported as an increase in net assets with donor restrictions. When a restriction is satisfied or expires, net assets with donor restrictions are released to net assets without donor restrictions.

##### Donated Rent, Goods, and Services

In-kind contributions of rent, goods, and services that meet the criteria for recognition are recognized by Lunalilo as contributions at the estimated fair market value at the date of donation, and are recorded as expenses or assets in the same amount (none in 2021 and 2020). Donated services are recognized as contributions if the services create or enhance nonfinancial assets, or require specialized skills that are performed by people with those skills and would otherwise be purchased by Lunalilo. A number of unpaid volunteers have made contributions of their time to Lunalilo. The value of their time is not reflected in these financial statements because it does not meet the criteria for recognition.

## LUNALILO HOME

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

As of and for the Years Ended December 31, 2021 and 2020

#### NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### Income Taxes

Lunalilo is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (Code) on exempt purpose income and is a private operating foundation under Section 4942. Accordingly, qualifying contributions to Lunalilo are tax deductible. As an exempt, private operating foundation, Lunalilo is not subject to the excise tax on net investment income for private foundations. Lunalilo must spend at least 85 percent of the lesser of its adjusted net income or its minimum investment return directly for the active conduct of its exempt activities. The distribution must not be less than two thirds of the minimum investment return, as defined in the Code.

U.S. GAAP requires uncertain tax positions to be recognized in the financial statements if they are more likely than not to fail upon regulatory examination. Management has evaluated Lunalilo's tax positions as of December 31, 2021 and 2020 and for the years then ended and determined that it had no uncertain tax positions required to be reported in accordance with U.S. GAAP. Lunalilo is subject to routine audits by taxing jurisdictions; however, there are currently no audits in progress for any open tax periods.

##### Hawaii General Excise Tax

The State of Hawaii imposes a general excise tax of 4% on the gross receipts of Lunalilo from certain fundraising activities within Hawaii, plus an additional 0.5% on such gross receipts within the City and County of Honolulu. Hawaii general excise tax related to special events revenue is netted against the corresponding revenue. General excise taxes related to other gross receipts are included in miscellaneous expenses. Total Hawaii general excise tax amounted to \$1,285 and \$2,413 for the years ended December 31, 2021 and 2020, respectively.

#### NOTE B – LIQUIDITY

The following reflects Lunalilo's financial assets as of December 31, 2021 and 2020 available to meet cash needs for general expenditures within one year of the statement of financial position date:

	<u>2021</u>	<u>2020</u>
Cash (including interest bearing accounts)	\$ 863,781	\$ 838,190
Accounts receivable – net	80,131	75,603
Investments	<u>11,976,825</u>	<u>11,091,308</u>
Total financial assets	<u>12,920,737</u>	<u>12,005,101</u>
Net assets with donor restrictions	<u>-</u>	<u>-</u>
Financial assets available to meet cash need for general expenditures within one year	<u>\$ 12,920,737</u>	<u>\$ 12,005,101</u>

# LUNALILO HOME

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

As of and for the Years Ended December 31, 2021 and 2020

### NOTE B – LIQUIDITY (Continued)

These financial assets are not subject to donor or other contractual restrictions that make them unavailable for general expenditure. The accounts receivable are subject to implied time restrictions, but are expected to be collected within one year. Lunalilo's investments are primarily used to subsidize the costs for those residents who qualify for assistance. Lunalilo is also able to request from the Trustees permission to utilize funds for other initiatives that qualify under the stipulations of the trust, including operating expenses.

### NOTE C – INVESTMENTS

At December 31, 2021 and 2020, investments consisted of the following:

	<u>2021</u>	<u>2020</u>
Investment in the Commonfund	<u>\$ 11,976,825</u>	<u>\$ 11,091,308</u>
Total investments	<u><u>\$ 11,976,825</u></u>	<u><u>\$ 11,091,308</u></u>

For the years ended December 31, 2021 and 2020, investment income consisted of the following:

	<u>2021</u>	<u>2020</u>
Investment income		
Change in value of investment	\$ 1,287,491	\$ 1,184,832
Interest and dividends	17	20
Investment fees	<u>(46,731)</u>	<u>(39,947)</u>
Total investment income – net	<u>\$ 1,240,777</u>	<u>\$ 1,144,905</u>

### NOTE D – FAIR VALUE MEASUREMENTS

U.S. GAAP provides a hierarchy that prioritizes the inputs to valuation methodologies used to measure fair value. There are three levels of the fair value hierarchy. Level 1 inputs to the valuation methodologies consist of unadjusted quoted prices for identical assets or liabilities in active markets that Lunalilo has the ability to access. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability, and inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability. Level 3 inputs are unobservable and significant to the fair value measurement.

## LUNALILO HOME

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

As of and for the Years Ended December 31, 2021 and 2020

#### NOTE D – FAIR VALUE MEASUREMENTS (Continued)

The fair value measurement of an asset or liability within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation methodologies used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The fair value measurements reportable by Lunalilo consisted of investments in the Commonfund valued at net asset value of the unit shares held by Lunalilo. There were no investments requiring Level 1, 2, or 3 inputs. The methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. The use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

#### NOTE E – PROPERTY AND EQUIPMENT

At December 31, 2021 and 2020, property and equipment consisted of the following:

	<u>2021</u>	<u>2020</u>
Building and building improvements	\$ 5,386,846	\$ 5,378,843
Furniture and equipment	933,918	901,653
Vehicles	119,026	95,111
Total depreciable assets	6,439,790	6,375,607
Accumulated depreciation	(3,319,181)	(3,042,549)
Total depreciable assets – net	3,120,609	3,333,058
Land	702,354	702,354
Property and equipment – net	<u>\$ 3,822,963</u>	<u>\$ 4,035,412</u>

#### NOTE F – LINE-OF-CREDIT

In October 2021, Lunalilo amended the line-of-credit agreement with a Hawaii bank to increase the available funds to \$500,000 and remove the minimum interest rate of 5.00%. The line-of-credit matured in November 2022 and Lunalilo is in the process of renewing the line-of-credit. The interest rate for the line-of-credit at, both, December 31, 2021 and 2020 was 5.00%. Lunalilo's investment in the Commonfund served as collateral on the line-of-credit. The outstanding balance on the line-of-credit was \$0 at December 31, 2021 and 2020.



# LUNALILO HOME

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

As of and for the Years Ended December 31, 2021 and 2020

### NOTE G – NOTES PAYABLE

At December 31, 2021 and 2020, Lunalilo's notes payable consisted of the following:

	<u>2021</u>	<u>2020</u>
\$687,000 term loan with a bank for the purchase of land; interest only payments are made monthly at a fixed annual percentage rate of 3.65% until the loan matures on November 1, 2021, when a lump sum payment of the total principal balance is due; collateralized by all the property of Lunalilo. The note was refinanced in October 2021 to a 10-year promissory note with a fixed interest rate of 3.125% and monthly principal and interest payment of \$3,303.	\$ 684,029	\$ 686,931
\$150,000 Economic Injury Disaster Loan payable to the U.S. Small Business Administration (SBA) with monthly principal and interest payments of \$641, at a fixed annual rate of 2.75%, beginning 24 months from the date of the promissory note. Matures in May 2050 and is collateralized by the assets of Lunalilo.	<u>150,000</u>	<u>150,000</u>
Total notes payable	834,029	836,931
Notes payable – current portion	<u>(20,471)</u>	<u>(689,250)</u>
Notes payable – noncurrent	<u>\$ 813,558</u>	<u>\$ 147,681</u>

At December 31, 2021, scheduled maturities of the notes payable approximated the following:

Years Ending December 31st	
2022	\$ 20,471
2023	22,540
2024	23,170
2025	23,970
2026	24,710
Thereafter	<u>719,168</u>
Total notes payable	<u>\$ 834,029</u>

## LUNALILO HOME

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

As of and for the Years Ended December 31, 2021 and 2020

#### NOTE H – SBA PPP LOAN AND CARES ACT PROVIDER RELIEF FUND

In April 2020, Lunalilo applied for and received a \$411,200 Paycheck Protection Program (PPP) loan from Central Pacific Bank. The U.S. Small Business Administration (SBA) established the PPP loan program in response to the COVID-19 pandemic to fund an entity's payroll and other applicable costs. All or a portion of the loan, which matures two years from the date of funding and bears interest at 1%, may be forgiven if Lunalilo meets the compliance requirements established by the SBA and other federal agencies. In March 2021, Lunalilo received notice that the SBA approved forgiveness in full of the PPP loan. Therefore, a gain on forgiveness of SBA PPP loan was recognized in the year ended December 31, 2021.

For the years ended December 31, 2021 and 2020, Lunalilo also received, in total, approximately \$471,900 and \$38,000, respectively, from the Provider Relief Fund. The Provider Relief Fund was established under the CARES Act to provide qualified providers of healthcare services with funds to cover healthcare-related expenses or lost revenue due to the COVID-19 pandemic. Lunalilo has incurred qualifying healthcare-related expenses of \$127,300 and \$0 during the years ended December 31, 2021 and 2020, respectively. As of December 31, 2021 and 2020, \$344,600 and \$38,000, respectively, are included as refundable advances in the statements of financial position.

#### NOTE I – GRANT REVENUE

For the years ended December 31, 2021 and 2020, grant revenue consisted of the following:

	<u>2021</u>	<u>2020</u>
COVID-19	\$ -	\$ 851,207
'Ai Pono	-	207,354
Kina'ole Foundation	100,000	-
Kupuna Care	-	96,000
Papa Ola Lokahi	-	74,198
I Ola Lahui	40,333	54,137
Kitchen Renovation	-	10,000
Other	-	20,367
Total trust and foundation grants revenue	<u>\$ 140,333</u>	<u>\$ 1,313,263</u>

# LUNALILO HOME

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

As of and for the Years Ended December 31, 2021 and 2020

### NOTE J – SPECIAL EVENTS

The special events for the years ended December 31, 2021 and 2020 consisted of the following:

	<u>2021</u>	<u>2020</u>
Income from special events		
Luau	\$ 13,990	\$ 15,150
Merrie Monarch	2,855	-
Imu Thanksgiving	11,083	27,050
Contributions from special events		
Luau	22,865	41,630
Merrie Monarch	4,125	-
Imu Thanksgiving	25,488	1,015
Other	25	5,418
Total revenue and support from special events	<u>80,431</u>	<u>90,263</u>
Direct costs of special events		
Luau	12,704	21,386
Merrie Monarch	4,157	-
IMU	16,037	13,397
Other	1,784	4,467
Total direct costs of special events	<u>34,682</u>	<u>39,250</u>
Special events – net	<u>\$ 45,749</u>	<u>\$ 51,013</u>

Lunalilo recognized special events sales revenue equal to the fair value of the direct benefits to donors of \$27,928 and \$42,200 and contributions for the excess received for the events of \$52,503 and \$48,063 for the years ended December 31, 2021 and 2020, respectively.

## LUNALILO HOME

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

As of and for the Years Ended December 31, 2021 and 2020

#### NOTE K – BOARD DESIGNATED NET ASSETS

In April 2014, Lunalilo's Trustees designated net assets without donor restrictions in an amount equal to the investment portfolio balances for future projects of Lunalilo. The amount is reported as board designated net assets, which are net assets without donor restrictions, as the Trustees can change the designation at any time.

At December 31, 2021 and 2020, the board designated net assets amounted to:

	<u>2021</u>	<u>2020</u>
Investments	<u>\$ 11,976,825</u>	<u>\$ 11,091,308</u>
Total board designated net assets	<u>\$ 11,976,825</u>	<u>\$ 11,091,308</u>

Changes in board designated net assets for the years ended December 31, 2021 and 2020 were as follows:

	<u>2021</u>	<u>2020</u>
Beginning balance	\$ 11,091,308	\$ 10,301,635
Investment income	1,240,777	1,144,905
Transfers to provide subsidies	<u>(355,260)</u>	<u>(355,232)</u>
Total board designated net assets	<u>\$ 11,976,825</u>	<u>\$ 11,091,308</u>

#### NOTE L – TRUSTEE COMPENSATION

The Trustees receive compensation based on recommendations determined by three professional individuals who serve voluntarily on an Ad Hoc Committee to determine trustee compensation for a period of two to three years. Trustee compensation totaled \$129,463 and \$102,000 for the years ended December 31, 2021 and 2020, respectively.

#### NOTE M – EMPLOYEE RETIREMENT PLAN

Lunalilo offers a 401(k) retirement plan through its employee leasing company that covers all leased employees who have met certain eligibility requirements. Lunalilo may make discretionary matching contributions to the plan. Lunalilo contributed \$2,524 and \$2,504 to the plan for the years ended December 31, 2021 and 2020, respectively.

## **LUNALILO HOME**

### **NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**As of and for the Years Ended December 31, 2021 and 2020**

#### **NOTE N – CONTINGENCIES**

Lunalilo may be subject to legal proceedings, claims, or litigation arising in the ordinary course of business for which it may seek the advice of legal counsel. Management estimates that the cost to resolve such matters, if any, would not be material to the financial statements. However, it is reasonably possible that such estimates may change within the near term.

Lunalilo operates in the State of Hawaii. Local, national, and international events (such as the COVID-19 pandemic) can have severe, adverse effects on economic conditions in Hawaii. These financial statements do not include the adjustments that would result if Lunalilo were to account for future losses or asset impairments, as the effects on the financial statements of Lunalilo from such changes in economic conditions are not presently determinable.

#### **NOTE O – SUBSEQUENT EVENTS**

Management has evaluated subsequent events through November 28, 2022, which is the date the financial statements were available to be issued, and determined that Lunalilo did not have any subsequent events requiring adjustment to the financial statements or disclosure in the notes to the financial statements.

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