

LUNALILO HOME

**FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT
As of and for the Year Ended December 31, 2023
(With Prior Year Comparative Information)**





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 statement of financial position as of December 31, 2023, and the related statements of activities, functional expenses, and cash flows for the year 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, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Basis for Opinion

We conducted our audit 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 audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Change in Accounting Principle

As discussed in Note A to the financial statements, during the year ended December 31, 2023, Lunalilo adopted Accounting Standards Update No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

Responsibilities of Management for the Financial Statements (continued)

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 that the financial statements are 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 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 audit.

Report on Prior Year Summarized Comparative Information

We have previously audited Lunalilo's December 31, 2022 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 18, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2022 is consistent, in all material respects, with the audited financial statements from which it has been derived.

CW Associates, CPAs

CW Associates, CPAs
Honolulu, Hawaii
December 26, 2024



LUNALILO HOME
STATEMENT OF FINANCIAL POSITION
As of December 31, 2023
(With Prior Year Comparative Information)

	<u>2023</u>	<u>2022</u>
ASSETS		
CURRENT ASSETS		
Cash (including interest bearing accounts)	\$ 838,811	\$ 4,271
Funds held in trust for others	35,909	31,737
Accounts receivable – net	185,934	32,350
Accounts receivable, client trust – net	-	81,965
Investments	8,783,613	9,518,529
Prepaid expenses	34,128	73,183
Total current assets	<u>9,878,395</u>	<u>9,742,035</u>
PROPERTY AND EQUIPMENT – Net	<u>3,491,642</u>	<u>3,616,974</u>
TOTAL ASSETS	<u>\$ 13,370,037</u>	<u>\$ 13,359,009</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Advances on line-of-credit	\$ 1,000,000	\$ 300,000
Accounts payable	351,032	309,237
Accrued liabilities	149,299	142,591
Due to others	5,086	5,086
Deferred revenue	-	9,477
Notes payable – current	30,630	22,544
Liability for funds held in trust for others	2,164	818
Total current liabilities	<u>1,538,211</u>	<u>789,753</u>
DUE TO OTHERS – Noncurrent	50,043	55,378
NOTES PAYABLE – Noncurrent	<u>847,956</u>	<u>793,260</u>
TOTAL LIABILITIES	<u>2,436,210</u>	<u>1,638,391</u>
NET ASSETS		
Net assets without donor restrictions		
Board designated	8,783,613	9,518,529
Undesignated	<u>2,076,609</u>	<u>2,093,518</u>
Total net assets without donor restrictions	10,860,222	11,612,047
Net assets with donor restrictions	<u>73,605</u>	<u>108,571</u>
Total net assets	<u>10,933,827</u>	<u>11,720,618</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 13,370,037</u>	<u>\$ 13,359,009</u>

See accompanying notes to the financial statements.

LUNALILO HOME

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2023
(With Prior Year Comparative Information)

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	Total <u>2023</u>	Total <u>2022</u>
CHANGES IN NET ASSETS				
WITHOUT DONOR RESTRICTIONS				
Operating revenues				
Revenue and support				
Program service fees – net of subsidies of \$457,962				
and \$501,716 for 2023 and 2022, respectively	\$ 3,170,203	\$ -	\$ 3,170,203	\$ 3,012,593
Contributions	72,720	227,615	300,335	744,541
Grant revenue	105,298	-	105,298	18,920
Special events – net	14,872	-	14,872	14,146
Other income	1,701	-	1,701	6,791
Net assets released from donor restrictions	262,581	(262,581)	-	-
Total revenue and support	<u>3,627,375</u>	<u>(34,966)</u>	<u>3,592,409</u>	<u>3,796,991</u>
Expenses				
Program services	4,582,588	-	4,582,588	4,423,878
Supporting services	1,217,491	-	1,217,491	769,618
Total expenses	<u>5,800,079</u>	<u>-</u>	<u>5,800,079</u>	<u>5,193,496</u>
Operating loss	(2,172,704)	(34,966)	(2,207,670)	(1,396,505)
Nonoperating income (expense)				
Investment income (loss) – net	<u>1,420,879</u>	<u>-</u>	<u>1,420,879</u>	<u>(2,051,756)</u>
DECREASE IN NET ASSETS	(751,825)	(34,966)	(786,791)	(3,448,261)
NET ASSETS – Beginning of year	<u>11,612,047</u>	<u>108,571</u>	<u>11,720,618</u>	<u>15,168,879</u>
NET ASSETS – End of year	<u>\$10,860,222</u>	<u>\$ 73,605</u>	<u>\$10,933,827</u>	<u>\$11,720,618</u>

See accompanying notes to the financial statements.

LUNALILO HOME

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2023
(With Prior Year Comparative Information)

	Program Services				Supporting Services			
	Adult Residential Care Home	Adult Day Care	Na Pua A Lunalilo	Total Program Services	Management and General	Fund- Raising	Total Supporting Service	Total
Labor expenses								
Labor costs	\$1,933,797	\$145,582	\$236,283	\$2,315,662	\$ 568,944	\$ -	\$ 568,944	\$2,884,606
Labor benefits	<u>167,756</u>	<u>13,398</u>	<u>17,337</u>	<u>198,491</u>	<u>63,542</u>	<u>-</u>	<u>63,542</u>	<u>262,033</u>
Total labor expenses	2,101,553	158,980	253,620	2,514,153	632,486	-	632,486	3,146,639
Professional and contractor fees	841,855	112,463	22,307	976,625	117,599	-	117,599	1,094,224
Food supplies	201,910	-	55,811	257,721	-	-	-	257,721
Depreciation	228,351	15,037	-	243,388	12,783	-	12,783	256,171
Utilities	179,178	1,412	13,622	194,212	9,117	-	9,117	203,329
Trustee compensation	-	-	-	-	148,000	-	148,000	148,000
Facility management	107,671	1,021	19,186	127,878	19,744	-	19,744	147,622
Supplies	97,989	590	32,721	131,300	7,477	-	7,477	138,777
Insurance	89,108	6,230	-	95,338	29,964	-	29,964	125,302
Marketing and promotion	-	-	619	619	108,955	-	108,955	109,574
Interest	-	-	-	-	87,150	-	87,150	87,150
Miscellaneous	23,779	779	14,181	38,739	42,497	-	42,497	81,236
Special events	-	-	-	-	-	6,156	6,156	6,156
Bad debt	<u>2,615</u>	<u>-</u>	<u>-</u>	<u>2,615</u>	<u>1,719</u>	<u>-</u>	<u>1,719</u>	<u>4,334</u>
Total	3,874,009	296,512	412,067	4,582,588	1,217,491	6,156	1,223,647	5,806,235
Direct costs of special events reported net in special events on the statement of activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(6,156)</u>	<u>(6,156)</u>	<u>(6,156)</u>
Total expenses	<u>\$3,874,009</u>	<u>\$296,512</u>	<u>\$412,067</u>	<u>\$4,582,588</u>	<u>\$1,217,491</u>	<u>\$ -</u>	<u>\$1,217,491</u>	<u>\$5,800,079</u>

See accompanying notes to the financial statements.

LUNALILO HOME

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2022
(With Prior Year Comparative Information)

	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	\$ 1,670,330	\$238,692	\$ 1,909,022	\$ 237,506	\$ -	\$ 237,506	\$2,146,528
Labor benefits	<u>183,135</u>	<u>18,569</u>	<u>201,704</u>	<u>24,736</u>	<u>-</u>	<u>24,736</u>	<u>226,440</u>
Total labor expenses	1,853,465	257,261	2,110,726	262,242	-	262,242	2,372,968
Professional and contractor fees	1,283,272	22,297	1,305,569	189,698	-	189,698	1,495,267
Food supplies	236,182	-	236,182	-	-	-	236,182
Depreciation	235,319	17,634	252,953	35,164	-	35,164	288,117
Utilities	153,864	1,431	155,295	1,185	-	1,185	156,480
Trustee compensation	-	-	-	136,500	-	136,500	136,500
Facility management	133,045	-	133,045	15,945	-	15,945	148,990
Supplies	106,645	4,147	110,792	543	-	543	111,335
Insurance	80,725	5,644	86,369	27,145	-	27,145	113,514
Marketing and promotion	1,535	-	1,535	65,380	-	65,380	66,915
Interest	-	-	-	22,787	-	22,787	22,787
Miscellaneous	13,894	150	14,044	12,255	774	13,029	27,073
Special events	-	-	-	-	26,322	26,322	26,322
Bad debt	<u>17,368</u>	<u>-</u>	<u>17,368</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,368</u>
Total	4,115,314	308,564	4,423,878	768,844	27,096	795,940	5,219,818
Direct costs of special events reported net in special events on the statement of activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(26,322)</u>	<u>(26,322)</u>	<u>(26,322)</u>
Total expenses	<u>\$4,115,314</u>	<u>\$308,564</u>	<u>\$4,423,878</u>	<u>\$ 768,844</u>	<u>\$ 774</u>	<u>\$ 769,618</u>	<u>\$5,193,496</u>

See accompanying notes to the financial statements.

LUNALILO HOME

STATEMENT OF CASH FLOWS

**For the Year Ended December 31, 2023
(With Prior Year Comparative Information)**

	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Program service payments received	\$3,122,680	\$2,913,487
Contributions received, net of amounts restricted for long-term purposes	197,881	46,575
Receipts from grants	185,200	352,436
Receipts from special events	19,305	45,173
Other cash receipts	31,430	10,569
Payments for salaries, benefits, and payroll taxes	(3,145,394)	(2,713,360)
Payments to vendors	(2,305,576)	(2,119,548)
Interest payment	<u>(79,389)</u>	<u>(21,576)</u>
Net cash used by operating activities	<u>(1,973,863)</u>	<u>(1,486,244)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Sales of investments	6,251,492	447,110
Purchases of investments	(4,066,871)	-
Purchases of property and equipment	<u>(130,839)</u>	<u>(82,128)</u>
Net cash provided by investing activities	<u>2,053,782</u>	<u>364,982</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances on line-of-credit	1,350,000	300,000
Repayments on line-of-credit	(650,000)	-
Additions to notes payable	82,474	-
Repayments of notes payable	(19,692)	(18,225)
Funds held in trust for others – net	(2,826)	(15,785)
Due to others	<u>(5,335)</u>	<u>(4,238)</u>
Net cash provided by financing activities	<u>754,621</u>	<u>261,752</u>
NET INCREASE (DECREASE) IN CASH	834,540	(859,510)
CASH – Beginning of year	<u>4,271</u>	<u>863,781</u>
CASH – End of year	<u><u>\$ 838,811</u></u>	<u><u>\$ 4,271</u></u>

See accompanying notes to the financial statements.

LUNALILO HOME

NOTES TO THE FINANCIAL STATEMENTS

As of and for the Year Ended December 31, 2023 (With Prior Year Comparative Information)

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 the 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 2023 and 2022).

The accompanying financial statements include prior year comparative information that does not constitute a complete presentation in accordance with U.S. GAAP. Accordingly, such information should be read in conjunction with Lunalilo's financial statements as of and for the year ended December 31, 2022, from which the information was derived.

Use of Estimates

The preparation of the 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 year. 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 Year Ended December 31, 2023 (With Prior Year Comparative Information)

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 did not exceed the federal deposit insurance at December 31, 2023 and 2022. Management evaluates the credit standings of these financial institutions to ensure that such deposits are adequately safeguarded. Accounts receivable, which have been reduced by estimated allowances for doubtful accounts (approximately \$0 and \$124,300 at December 31, 2023 and 2022, respectively), are determined to be collectible or uncollectible based on assessments by management of the facts and circumstances related to the individual receivable amounts, including historical experience, an assessment of current and future 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, 2023 and 2022, 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 net asset value of 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 (loss) recorded is based on Lunalilo's proportionate share of the fund's portfolio net assets and included in investment income (loss) in the statements of activities.

LUNALILO HOME

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**As of and for the Year Ended December 31, 2023
(With Prior Year Comparative Information)**

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 goods or services are provided to the customer. Revenue is recognized from performance obligations satisfied over time or at a point in time. Other income and investment income (loss), were derived from sources other than performance obligations. Lunalilo records special events revenue equal to the fair value of direct benefits provided to donors when the event takes place, and contribution revenue for the excess received when the contribution is received unless the donor is entitled to a refund if the event does not take 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 that 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) 842, *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 \$2,684,329 and \$2,627,355 for the years ended December 31, 2023 and 2022, 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 to resident service fee revenue.

LUNALILO HOME

NOTES TO THE FINANCIAL STATEMENTS (Continued)

As of and for the Year Ended December 31, 2023 (With Prior Year Comparative Information)

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 \$723,897 and \$603,868 for the years ended December 31, 2023 and 2022, respectively.

Food Service Fees

Food service fee revenue is recognized when the goods or services are provided to the customer 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 \$219,939 and \$283,086 for the years ended December 31, 2023 and 2022, respectively.

Expenses

Expenses, including advertising expenses (\$109,574 and \$66,915 in 2023 and 2022, 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, 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 Year Ended December 31, 2023 (With Prior Year Comparative Information)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Grants (continued)

Revenue received in excess of such expenditures is reported as refundable advances (none in 2023 and 2022). Qualifying expenditures incurred that have not yet been billed or received are reported as grants receivable (none in 2023 and 2022). 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 \$153,000 that have not been recognized as of December 31, 2023 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, 2023 and 2022.

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 2023 and 2022). 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 Year Ended December 31, 2023 (With Prior Year Comparative Information)

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. Lunalilo met the distribution requirements for the 2023 and 2022 tax years.

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, 2023 and 2022 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 \$481 and \$614 for the years ended December 31, 2023 and 2022, respectively.

Adoption of New Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. ASU 2016-13 changes how entities measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. This ASU introduces a new credit loss methodology, Current Expected Credit Losses (CECL), which requires earlier recognition of credit losses, while also providing additional transparency about credit risk. This change is a shift from the current incurred loss model to the expected loss model. Expected credit losses are recognized at the time the financial asset is originated and adjusted each period for changes in expected lifetime credit losses. Previously, credit losses were recognized when the loss was incurred.

LUNALILO HOME

NOTES TO THE FINANCIAL STATEMENTS (Continued)

As of and for the Year Ended December 31, 2023 (With Prior Year Comparative Information)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of New Accounting Pronouncements (continued)

Under CECL, trade accounts receivable are analyzed in a similar fashion as legacy U.S. GAAP, using an aging methodology to estimate CECL, much like the existing methodology. If the selling entity determines collection is probable, the credit loss risk is not zero. The selling entity would apply Topic 326 to estimate CECL on the trade accounts receivable. CECL is different (and thus accounted for differently) from losses due to other factors, such as the seller's nonperformance, volume rebates, trade allowances, or customer contract modifications. Under Topic 326, disclosures are required to provide users of the financial statements with useful information in analyzing an entity's exposure to credit risk and the measurement of credit losses.

Lunalilo implemented this ASU during the year ended December 31, 2023. The impact of the adoption of this ASU was not material to the financial statements and only resulted in enhanced disclosures, as the financial assets of Lunalilo consisted of accounts receivable due in one year or less.

NOTE B – LIQUIDITY

The following reflects Lunalilo's financial assets as of December 31, 2023 and 2022 available to meet cash needs for general expenditures within one year of the statement of financial position date:

	<u>2023</u>	<u>2022</u>
Cash (including interest bearing accounts)	\$ 838,811	\$ 4,271
Accounts receivable – net	185,934	32,350
Investments	<u>8,783,613</u>	<u>9,518,529</u>
Total financial assets	9,808,358	9,555,150
Net assets with donor restrictions	<u>(73,605)</u>	<u>(108,571)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$9,734,753</u>	<u>\$9,446,579</u>

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 those funds for other initiatives that qualify under the stipulations of the trust, including operating expenses.

LUNALILO HOME

NOTES TO THE FINANCIAL STATEMENTS (Continued)

As of and for the Year Ended December 31, 2023 (With Prior Year Comparative Information)

NOTE C – INVESTMENTS

At December 31, 2023 and 2022, investments consisted entirely of an investment in the Commonfund.

For the years ended December 31, 2023 and 2022, investment income (loss) consisted of the following:

	<u>2023</u>	<u>2022</u>
Investment income (loss)		
Change in value of investment	\$ 1,449,705	\$ (2,011,186)
Interest and dividends	-	16
Investment fees	<u>(28,826)</u>	<u>(40,586)</u>
Total investment income (loss) – net	<u>\$ 1,420,879</u>	<u>\$ (2,051,756)</u>

NOTE D – FAIR VALUE MEASUREMENTS

U.S. GAAP provides a fair value hierarchy that prioritizes the inputs to the valuation methodology used to measure fair value. There are three levels of inputs to the valuation methodologies. Level 1 inputs 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.

The fair value measurement level 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 could result in a different fair value measurement at the reporting date.

LUNALILO HOME

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**As of and for the Year Ended December 31, 2023
(With Prior Year Comparative Information)**

NOTE E – PROPERTY AND EQUIPMENT

At December 31, 2023 and 2022, property and equipment consisted of the following:

	<u>2023</u>	<u>2022</u>
Building and building improvements	\$5,386,846	\$5,386,846
Furniture and equipment	934,160	924,942
Vehicles	<u>250,250</u>	<u>169,026</u>
Total depreciable assets	6,571,256	6,480,814
Accumulated depreciation	<u>(3,781,968)</u>	<u>(3,566,194)</u>
Total depreciable assets – net	2,789,288	2,914,620
Land	<u>702,354</u>	<u>702,354</u>
Property and equipment – net	<u><u>\$3,491,642</u></u>	<u><u>\$3,616,974</u></u>

NOTE F – LINE-OF-CREDIT

During the year ended December 31, 2022, Lunalilo had a \$500,000 line-of-credit with a Hawaii bank. The line-of-credit was increased to \$1,000,000 effective November 2023. Advances on the line-of-credit bear interest at the Bank's base rate and are collateralized by Lunalilo's investment in the Commonfund. The line-of-credit agreement includes covenants that may limit Lunalilo's operations, and that require it to maintain certain financial ratios and make periodic reports to the Bank. The interest rate for the line-of-credit was 8.50% and 7.50% at December 31, 2023 and 2022, respectively. The outstanding balance on the line-of-credit was \$1,000,000 and \$300,000 at December 31, 2023 and 2022, respectively.

NOTE G – NOTES PAYABLE

At December 31, 2023 and 2022, Lunalilo's notes payable consisted of the following:

	<u>2023</u>	<u>2022</u>
\$687,000 term loan with a bank for the purchase of land; interest only payments were made monthly at a fixed annual percentage rate of 3.65% until the loan matured on November 1, 2021, when a lump sum payment of the total principal balance was due. Refinanced in October 2021 to a 10-year promissary note with a fixed interest rate of 3.125% and monthly principal and interest payments of \$3,303. Collateralized by all the property of Lunalilo.	\$ 646,993	\$ 665,804

LUNALILO HOME

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**As of and for the Year Ended December 31, 2023
(With Prior Year Comparative Information)**

NOTE G – NOTES PAYABLE (Continued)

	<u>2023</u>	<u>2022</u>
\$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 30 months from the date of the promissory note. Matures in May 2050 and is collateralized by the assets of Lunalilo.	\$150,000	\$150,000
\$82,474 finance loan for the purchase of a vehicle with monthly principal and interest payments of \$1,480, at a fixed annual rate of 8.84%, beginning 72 months from the date of the promissory note. Matures in December 2028 and is collateralized by the vehicle purchased.	<u>81,593</u>	<u>-</u>
Total notes payable	878,586	815,804
Notes payable – current portion	<u>(30,630)</u>	<u>(22,544)</u>
Notes payable – noncurrent	<u>\$ 847,956</u>	<u>\$ 793,260</u>

At December 31, 2023, scheduled maturities of the notes payable approximated the following:

Years Ending December 31st	
2024	\$ 30,630
2025	32,340
2026	36,790
2027	39,649
2028	41,687
Thereafter	<u>697,490</u>
Total notes payable	<u>\$878,586</u>

LUNALILO HOME

NOTES TO THE FINANCIAL STATEMENTS (Continued)

As of and for the Year Ended December 31, 2023 (With Prior Year Comparative Information)

NOTE H – NET ASSETS WITH DONOR RESTRICTIONS

At December 31, 2023 and 2022, net assets with donor restrictions consisted of the following:

	<u>2023</u>	<u>2022</u>
Kupuna meals	\$ 60,656	\$ 76,571
Adult Day Care expansion	12,000	12,000
Leadership transition	-	20,000
Other	<u>949</u>	<u>-</u>
Net assets with donor restrictions	<u>\$ 73,605</u>	<u>\$ 108,571</u>

NOTE I – 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.

Changes in board designated net assets for the years ended December 31, 2023 and 2022 were as follows:

	<u>2023</u>	<u>2022</u>
Beginning balance	\$9,518,529	\$11,976,825
Investment income (loss)	1,420,879	(2,051,756)
Transfers for programmatic operating expenses	(1,550,000)	-
Transfers to provide subsidies	<u>(605,795)</u>	<u>(406,540)</u>
Total board designated net assets	<u>\$8,783,613</u>	<u>\$ 9,518,529</u>

LUNALILO HOME

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**As of and for the Year Ended December 31, 2023
(With Prior Year Comparative Information)**

NOTE J – SPECIAL EVENT

The special event for the years ended December 31, 2023 and 2022 consisted of the following:

	<u>2023</u>	<u>2022</u>
Revenue from special event		
Imu Thanksgiving	\$ 4,700	\$ 17,315
Contributions from special event		
Imu Thanksgiving	<u>16,328</u>	<u>23,153</u>
Total revenue and support from special event	<u>21,028</u>	<u>40,468</u>
Direct costs of special event		
Imu Thanksgiving	5,810	26,193
Other	<u>346</u>	<u>129</u>
Total direct costs of special event	<u>6,156</u>	<u>26,322</u>
Special event – net	<u>\$ 14,872</u>	<u>\$ 14,146</u>

NOTE K – 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 \$148,000 and \$136,500 for the years ended December 31, 2023 and 2022, respectively.

NOTE L – 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 \$1,993 and \$1,715 to the plan for the years ended December 31, 2023 and 2022, respectively.

LUNALILO HOME

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**As of and for the Year Ended December 31, 2023
(With Prior Year Comparative Information)**

NOTE M – 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 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 N – SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 26, 2024, 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.
