

Honolulu Museum of Art

Financial Statements

June 30, 2023 and 2022

Together with Independent Auditor's Report



A Hawaii Limited Liability Partnership

Independent Auditor's Report

To the Board of Trustees of
Honolulu Museum of Art:

Opinion

We have audited the financial statements of Honolulu Museum of Art (the Museum), which comprise the statements of financial position as of June 30, 2023 and 2022, 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 the Museum as of June 30, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (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 the Museum 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 the Museum's ability to continue as a going concern within one year after the date that the financial statements are issued or 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 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 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 the Museum'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 the Museum'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.



KMH LLP

Honolulu, Hawaii
September 11, 2024

Honolulu Museum of Art

Statements of Financial Position
June 30, 2023 and 2022

	<u>Assets</u>	
	2023	2022
Cash and Cash Equivalents	\$ 9,623,889	\$ 4,048,914
Inventories	276,296	258,126
Contributions Receivable	100,600	1,717,913
Prepaid Expenses and Other	306,208	374,329
Contributed Rent	477,253	624,449
Long-term Contributions Receivable, net	400,000	-
Property held for sale, net	-	6,350,486
Land, Buildings, and Equipment, net	26,845,305	26,989,858
Long-term Investments	67,729,266	64,595,960
Beneficial Interest in Perpetual Trusts	18,302,668	16,990,341
Total assets	<u>\$ 124,061,485</u>	<u>\$ 121,950,376</u>
 <u>Liabilities and Net Assets</u> 		
Liabilities:		
Accounts payable, accrued expenses, and other	\$ 1,406,247	\$ 829,982
Liabilities under split-interest agreements	1,295,686	1,363,761
Loans payable	6,900,000	6,900,000
Deferred revenue	34,848	219,571
Total liabilities	<u>9,636,781</u>	<u>9,313,314</u>
Commitments and Contingencies		
Net Assets:		
Without donor restrictions:		
Undesignated	10,200,236	13,340,004
Board designated	769,227	740,219
	<u>10,969,463</u>	<u>14,080,223</u>
With donor restrictions	103,455,241	98,556,839
Total net assets	<u>114,424,704</u>	<u>112,637,062</u>
Total liabilities and net assets	<u>\$ 124,061,485</u>	<u>\$ 121,950,376</u>

See accompanying notes to financial statements.

Honolulu Museum of Art

Statement of Activities

For the Year Ended June 30, 2023

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues, Gains, and Other Support:			
Gifts and bequests	\$ 1,779,727	\$ 2,014,336	\$ 3,794,063
Net realized and unrealized gains on investments	1,520,566	4,202,865	5,723,431
Gain on sale of property held for sale, net	1,013,197	-	1,013,197
Loss on disposal of land, buildings, and equipment	(25,565)	-	(25,565)
Change in value of split-interest agreements, net	(189,325)	-	(189,325)
Change in value of beneficial interest in perpetual trusts	-	1,312,327	1,312,327
Dividends and interest, net of investment fees and expenses of \$386,421	452,816	197,323	650,139
Museum shops and cafes	1,789,745	-	1,789,745
Income from Trusts:			
R. Allerton Acquisition Fund and R. Allerton Trust	811,608	64,948	876,556
Others	396,252	36,530	432,782
Membership dues	678,030	-	678,030
Tuition and fees	501,266	-	501,266
Admissions	996,207	-	996,207
Governmental grants	-	1,000,293	1,000,293
Special events and other, net	536,132	-	536,132
Net assets released from restrictions	<u>3,930,220</u>	<u>(3,930,220)</u>	<u>-</u>
Total revenues, gains, and other support	<u>14,190,876</u>	<u>4,898,402</u>	<u>19,089,278</u>
Expenses:			
Program services:			
Education	3,681,224	-	3,681,224
Special exhibitions	3,062,344	-	3,062,344
Curatorial and conservation	2,424,044	-	2,424,044
Museum shops and cafes	2,066,228	-	2,066,228
Art acquisitions	<u>90,042</u>	<u>-</u>	<u>90,042</u>
Total program services	<u>11,323,882</u>	<u>-</u>	<u>11,323,882</u>
Supporting services:			
Management and general	3,958,150	-	3,958,150
Fundraising and development	<u>2,019,604</u>	<u>-</u>	<u>2,019,604</u>
Total supporting services	<u>5,977,754</u>	<u>-</u>	<u>5,977,754</u>
Total expenses	<u>17,301,636</u>	<u>-</u>	<u>17,301,636</u>
Change in net assets	(3,110,760)	4,898,402	1,787,642
Net Assets at Beginning of Year	<u>14,080,223</u>	<u>98,556,839</u>	<u>112,637,062</u>
Net Assets at End of Year	<u>\$ 10,969,463</u>	<u>\$ 103,455,241</u>	<u>\$ 114,424,704</u>

See accompanying notes to financial statements.

Honolulu Museum of Art

Statement of Activities

For the Year Ended June 30, 2022

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues, Gains, and Other Support:			
Gifts and bequests	\$ 2,202,092	\$ 5,117,016	\$ 7,319,108
Net realized and unrealized losses on investments	(2,145,437)	(8,874,615)	(11,020,052)
Change in value of split-interest agreements, net	(105,984)	-	(105,984)
Change in value of beneficial interest in perpetual trusts	-	(4,275,713)	(4,275,713)
Dividends and interest, net of investment fees and expenses of \$164,538	116,094	939,310	1,055,404
Museum shops and cafes	1,098,366	-	1,098,366
Income from Trusts:			
R. Allerton Acquisition Fund and R. Allerton Trust	797,672	50,181	847,853
Others	357,350	30,626	387,976
Membership dues	702,223	-	702,223
Tuition and fees	175,272	-	175,272
Admissions	471,160	-	471,160
Governmental grants	-	3,431,096	3,431,096
Special events and other, net	288,971	-	288,971
Other	1,328	-	1,328
Net assets released from restrictions	5,918,042	(5,918,042)	-
Total revenues, gains, and other support	<u>9,877,149</u>	<u>(9,500,141)</u>	<u>377,008</u>
Expenses:			
Program services:			
Education	2,636,822	-	2,636,822
Special exhibitions	2,842,648	-	2,842,648
Curatorial and conservation	2,171,848	-	2,171,848
Museum shops and cafes	1,672,012	-	1,672,012
Art acquisitions	189,302	-	189,302
Total program services	<u>9,512,632</u>	<u>-</u>	<u>9,512,632</u>
Supporting services:			
Management and general	3,552,871	-	3,552,871
Fundraising and development	1,839,995	-	1,839,995
Total supporting services	<u>5,392,866</u>	<u>-</u>	<u>5,392,866</u>
Total expenses	<u>14,905,498</u>	<u>-</u>	<u>14,905,498</u>
Change in net assets	(5,028,349)	(9,500,141)	(14,528,490)
Net Assets at Beginning of Year	<u>19,108,572</u>	<u>108,056,980</u>	<u>127,165,552</u>
Net Assets at End of Year	<u>\$ 14,080,223</u>	<u>\$ 98,556,839</u>	<u>\$ 112,637,062</u>

See accompanying notes to financial statements.

Honolulu Museum of Art

Statement of Functional Expenses
For the Year Ended June 30, 2023

	Program Services					Supporting Services			Total Expenses	
	Education	Special Exhibitions	Curatorial and Conservation	Museum Shops and Cafes	Art Acquisitions	Subtotal	Management and General	Fund-Raising and Development		Subtotal
Salaries and wages	\$ 1,510,062	\$ 1,025,873	\$ 1,334,684	\$ 810,402	\$ -	\$ 4,681,021	\$ 1,854,829	\$ 949,854	\$ 2,804,683	\$ 7,485,704
Employee benefits	297,870	223,931	304,347	176,099	-	1,002,247	459,379	257,614	716,993	1,719,240
Utilities	306,873	374,882	151,895	79,589	-	913,239	151,100	20,601	171,701	1,084,940
Professional and other services	301,543	331,799	145,516	127,909	-	906,767	399,217	281,835	681,052	1,587,819
Depreciation and amortization	314,112	450,579	182,566	88,354	-	1,035,611	-	24,759	24,759	1,060,370
Purchases for resale	-	-	-	679,263	-	679,263	-	-	-	679,263
Repairs and maintenance	198,836	238,906	98,076	77,961	-	613,779	654,559	17,545	672,104	1,285,883
Repairs and maintenance (non routine)	25,583	46,115	14,711	7,120	-	93,529	12,378	1,995	14,373	107,902
Rental	244,869	2,742	1,734	465	-	249,810	20,421	130	20,551	270,361
Supplies	197,314	62,161	29,930	47,512	-	336,917	47,470	20,952	68,422	405,339
Publicity and printing	26,265	18,506	685	997	-	46,453	70,509	344,688	415,197	461,650
Insurance	64,504	23,601	51,724	4,628	-	144,457	2,725	1,297	4,022	148,479
Art acquisitions	-	-	-	-	90,042	90,042	-	-	-	90,042
Hospitality	11,636	1,122	703	144	-	13,605	26,345	10,178	36,523	50,128
Other	1,915	1,087	11,991	19,130	-	34,123	12,765	-	12,765	46,888
Postage and freight	8,184	32,192	-	1,023	-	41,399	8,332	8,258	16,590	57,989
Interest	21,360	47,545	19,264	9,324	-	97,493	137,868	18,370	156,238	253,731
Education and theatre	32,136	5,000	-	-	-	37,136	-	-	-	37,136
Security	38,560	57,849	23,439	11,344	-	131,192	27,845	3,179	31,024	162,216
Exhibitions	-	98,976	-	3,700	-	102,676	-	-	-	102,676
Travel	57,459	5,075	27,076	764	-	90,374	49,868	20,364	70,232	160,606
Conservation	-	1,314	24,126	-	-	25,440	-	-	-	25,440
Books	16,528	-	50	-	-	16,578	1,210	46	1,256	17,834
Interdepartmental	5,615	13,089	1,527	(79,500)	-	(59,269)	21,330	37,939	59,269	-
	<u>\$ 3,681,224</u>	<u>\$ 3,062,344</u>	<u>\$ 2,424,044</u>	<u>\$ 2,066,228</u>	<u>\$ 90,042</u>	<u>\$ 11,323,882</u>	<u>\$ 3,958,150</u>	<u>\$ 2,019,604</u>	<u>\$ 5,977,754</u>	<u>\$ 17,301,636</u>

See accompanying notes to financial statements.

Honolulu Museum of Art

Statement of Functional Expenses
For the Year Ended June 30, 2022

	Program Services					Supporting Services			Total Expenses	
	Education	Special Exhibitions	Curatorial and Conservation	Museum Shops and Cafes	Art Acquisitions	Subtotal	Management and General	Fund-Raising and Development		Subtotal
Salaries and wages	\$ 1,023,478	\$ 896,307	\$ 1,119,000	\$ 683,242	\$ -	\$ 3,722,027	\$ 1,603,749	\$ 1,000,263	\$ 2,604,012	\$ 6,326,039
Employee benefits	239,085	201,844	271,281	156,033	-	868,243	439,552	217,085	656,637	1,524,880
Utilities	220,279	271,569	110,035	60,824	-	662,707	125,324	14,924	140,248	802,955
Professional and other services	88,260	207,053	60,390	90,617	-	446,320	436,350	163,942	600,292	1,046,612
Depreciation and amortization	298,528	417,438	169,138	81,855	-	966,959	13,697	22,940	36,637	1,003,596
Purchases for resale	-	-	-	472,976	-	472,976	-	-	-	472,976
Repairs and maintenance	279,547	355,725	141,285	76,434	-	852,991	579,187	17,754	596,941	1,449,932
Rental	211,258	79,599	3,839	139	-	294,835	58,952	39	58,991	353,826
Supplies	79,355	70,845	32,320	32,234	-	214,754	41,104	26,977	68,081	282,835
Publicity and printing	7,729	18,137	1,205	238	-	27,309	8,552	297,031	305,583	332,892
Insurance	124,925	23,893	61,338	4,685	-	214,841	784	1,313	2,097	216,938
Art acquisitions	-	-	-	-	189,302	189,302	-	-	-	189,302
Hospitality	410	692	1,382	285	-	2,769	21,904	15,902	37,806	40,575
Other	4,087	(1,669)	1,936	32,929	-	37,283	38,647	5,162	43,809	81,092
Postage and freight	3,627	938	105,799	3,872	-	114,236	3,916	12,390	16,306	130,542
Interest	20,168	44,891	18,189	8,803	-	92,051	125,004	18,224	143,228	235,279
Education and theatre	3,381	-	-	-	-	3,381	-	-	-	3,381
Security	17,859	151,890	11,557	5,593	-	186,899	12,429	1,567	13,996	200,895
Exhibitions	-	81,417	-	-	-	81,417	-	-	-	81,417
Travel	2,379	15,508	16,428	699	-	35,014	34,764	2,241	37,005	72,019
Conservation	-	-	45,676	-	-	45,676	-	-	-	45,676
Books	11,413	-	10	-	-	11,423	362	54	416	11,839
Interdepartmental	1,054	6,571	1,040	(39,446)	-	(30,781)	8,594	22,187	30,781	-
	<u>\$ 2,636,822</u>	<u>\$ 2,842,648</u>	<u>\$ 2,171,848</u>	<u>\$ 1,672,012</u>	<u>\$ 189,302</u>	<u>\$ 9,512,632</u>	<u>\$ 3,552,871</u>	<u>\$ 1,839,995</u>	<u>\$ 5,392,866</u>	<u>\$ 14,905,498</u>

See accompanying notes to financial statements.

Honolulu Museum of Art

Statements of Cash Flows

For the Years Ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Cash Flows from Operating Activities:		
Change in net assets	\$ 1,787,642	\$ (14,528,490)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	1,060,370	1,003,596
Amortization of contributed rent	147,196	150,795
Net realized and unrealized (gain) loss on investments	(5,723,431)	11,020,052
Gain on sale of property held for sale, net	(1,013,197)	-
Loss on disposal of land, buildings, and equipment	25,565	-
Change in value of beneficial interest in perpetual trusts	(1,312,327)	4,275,713
Contributions restricted for long-term investment	(190,638)	(1,350,013)
(Increase) decrease in operating assets:		
Inventories	(18,170)	40,385
Contributions receivable	1,217,313	(83,160)
Prepaid expenses and other	68,121	(33,278)
Increase (decrease) in operating liabilities:		
Accounts payable, accrued expenses, and other	576,265	(22,907)
Liabilities under split-interest agreements	(68,075)	(112,093)
Deferred revenue	(184,723)	189,408
Net cash (used in) provided by operating activities	<u>(3,628,089)</u>	<u>550,008</u>
Cash Flows from Investing Activities:		
Proceeds from sale of investments	13,181,663	264,322,836
Proceeds from sale of property held for sale	7,363,683	-
Purchase of investments	(10,591,538)	(267,874,647)
Purchases of land, buildings and equipment	<u>(941,382)</u>	<u>(2,997,717)</u>
Net cash provided by (used in) investing activities	<u>9,012,426</u>	<u>(6,549,528)</u>

(continued)

See accompanying notes to financial statements.

Honolulu Museum of Art

Statements of Cash Flows

For the Years Ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Cash Flows from Financing Activities:		
Payment on loans payable	\$ -	\$ (100,000)
Proceeds from contributions restricted for investment in endowment	<u>190,638</u>	<u>1,350,013</u>
Net cash provided by financing activities	<u>190,638</u>	<u>1,250,013</u>
Net increase (decrease) in cash and cash equivalents	5,574,975	(4,749,507)
Cash and Cash Equivalents, beginning of year	<u>4,048,914</u>	<u>8,798,421</u>
Cash and Cash Equivalents, end of year	<u><u>\$ 9,623,889</u></u>	<u><u>\$ 4,048,914</u></u>
Supplemental Disclosure of Cash Flow Information --		
Interest Paid	<u><u>\$ 226,424</u></u>	<u><u>\$ 196,957</u></u>

See accompanying notes to financial statements.

Honolulu Museum of Art

Notes to Financial Statements
June 30, 2023 and 2022

1. Summary of Operations and Significant Accounting Policies

a. General

The Honolulu Museum of Art (the Museum) was founded in 1927 to provide educational and cultural enrichment in the arts. It is a private, nonprofit institution accredited by the American Association of Museums. The Museum's operations are conducted in the state of Hawaii. Effective May 19, 2020, the Museum's name changed from the Honolulu Academy of Arts, dba Honolulu Museum of Art to the Honolulu Museum of Art.

On July 1, 2011, subject to the restrictions and conditions of the gift agreement signed by The Contemporary Museum (TCM) and the Museum, TCM gifted artwork, real property, pledge receivables, cash, and investments, to the extent transferable, to the Museum. The Museum recorded approximately \$25,491,000 as gifts and bequests related to the gift agreement based on restrictions stipulated by the donor.

b. Financial Statement Presentation

Net assets and revenues, gains, losses, and other support are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Museum and changes therein are classified and reported as follows:

Net Assets without donor restrictions – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Museum. These net assets may be used at the discretion of the Museum's management and the board of directors.

Net Assets with donor restrictions – 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 the Museum or by the passage of time. Some donor restrictions are perpetual in nature and do not expire with the passage of time or by the actions of the Museum. Donors of these assets allow the Museum to use the income earned by these assets for programs or general purposes.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restriction in the statements of activities.

Honolulu Museum of Art

Notes to Financial Statements
June 30, 2023 and 2022

1. Summary of Operations and Significant Accounting Policies (continued)

c. Cash and Cash Equivalents

The Museum considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Included in investments are cash and cash equivalents designated by the Board to be held in investment accounts for routine purchases and sales of investments.

d. Inventories

Merchandise inventories consist of gift shop and cafe items and are recorded at the lower of cost (specific identification) or net realizable value.

e. Investments

Marketable securities are reported at fair value in the statements of financial position with unrealized gains and losses included in the statements of activities. Fair value is based on quoted market prices or other methods as further described in Note 14.

Gains and losses on investments are reported in the statements of activities as increases or decreases in net assets without donor restrictions unless their use is donor restricted by explicit donor stipulations or by law.

f. Land, Buildings, and Equipment

Land, buildings, and equipment are capitalized at cost, if purchased, or at fair market value at the date of the donation, if contributed. Assets contributed for which the fair value is not determinable at the date of donation are recorded as support if and when such values are determined. Depreciation on buildings and equipment is calculated on the straight-line method over the estimated economic life of the assets.

The Museum reports gifts of land, buildings, and equipment as net assets without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as net assets with donor restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Museum reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Honolulu Museum of Art

Notes to Financial Statements
June 30, 2023 and 2022

1. Summary of Operations and Significant Accounting Policies (continued)

f. Land, Buildings, and Equipment (continued)

Land, buildings, and equipment are classified as held for sale when their carrying amount will be recovered principally through a sale transaction rather than continuing use and a sale is highly probable. Land, buildings, and equipment designated as held for sale are held at the lower of its carrying amount or fair value less costs to sell. No depreciation is charged on buildings and equipment classified as held for sale. At June 30, 2023 and 2022, property held for sale amounted to nil and \$6,350,486, respectively. During the year ended June 30, 2023, the Museum sold the property classified as held for sale and recognized a gain of approximately \$1,013,000.

g. Revenue Recognition

The Museum accounts for its revenues in accordance with Accounting Standards Codification (ASC) 606, *Revenue from Contracts with Customers*, and recognizes revenue as performance obligations are satisfied. Performance obligations are satisfied when goods or services are transferred to the customer. The Museum's principal activities resulting in contracts with customers include, Museum shop and café sales, membership dues, admissions and special events.

Museum shop and café sales – Performance obligations are satisfied at the point in time when the sale occurs. The transaction price is the stated retail price unless the customer is a member and a discount is provided. Discounts are not considered significant.

Membership dues – Membership dues are based on fixed rate schedules at the beginning of the membership year and are nonrefundable. Membership dues are collected at the time of purchase. Membership dues are considered exchange transactions as members are entitled to certain benefits during the membership period, which is generally 12 months. Revenue is recognized upon receipt as there is no significant variance from recognizing revenue on a pro rata basis over the membership period. Certain memberships also contain a contribution element which represents the membership dues in excess of the benefits provided. The contribution portion is recorded upon receipt.

Admissions – Revenue is recognized on the date of visit. Admissions fees are based on published rates and are nonrefundable. Admission fees are collected at time of purchase.

Honolulu Museum of Art

Notes to Financial Statements
June 30, 2023 and 2022

1. Summary of Operations and Significant Accounting Policies (continued)

g. Revenue Recognition (continued)

Special events – Revenue equal to the fair value of direct benefits to donors, and contribution income for the amount in excess of the direct benefits, is recorded when the event occurs.

The revenue streams noted above do not include financing components as performance obligations are satisfied within one year of receipt of payment.

h. Contributions

Contributions are recorded in the period received. Unconditional promises to give (contributions receivable) that are expected to be collected within one year are recorded at net realizable value. Contributions receivable that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using fair value rates in the years in which promises are received. Amortization of the discounts is included in gifts and bequests in the accompanying statements of activities. Conditional contributions are recorded at their estimated fair value in the period the conditions are substantially met or when explicitly waived by the donor.

The Museum provides an allowance for uncollectible contributions based upon historical experience with its donors as well as individual donor circumstances.

The Museum reports gifts of cash and other assets as support with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the accompanying statements of activities as net assets released from restrictions.

Grant income is recognized when project expenses are incurred. Any funding received in advance of expenditures is reported as other liabilities in the accompanying statements of financial position.

i. Deferred Revenue

Deferred revenue represents table and ticket sales collected for future events, gift memberships, and exhibition fees received as deposits for traveling exhibitions organized by the Museum and displayed subsequent to year-end.

Honolulu Museum of Art

Notes to Financial Statements
June 30, 2023 and 2022

1. Summary of Operations and Significant Accounting Policies (continued)

j. Split Interest Agreements

The Museum's split-interest agreements with donors consist of irrevocable pooled income funds, charitable remainder trusts, and charitable gift annuities for which the Museum serves as trustee. Assets held under these split-interest agreements are included in investments and amounted to \$1,952,278 and \$2,025,650 at June 30, 2023 and 2022, respectively. Contribution revenues are recognized upon the effective date of the split-interest agreements as gifts and bequests in the accompanying statements of activities.

Liabilities are recorded for the present value (utilizing discount rates ranging between 5.60% and 7.50%) of the estimated future payments to be made to the donors and/or other beneficiaries. The liabilities are subsequently adjusted during the term of the split-interest agreements for changes in the fair value of the assets, accretion of the discount, and other changes in the estimates of future benefits. Annual payments for each agreement range from approximately \$1,600 to \$80,000. For the years ended June 30, 2023 and 2022, there was no contribution revenue recognized under such agreements.

For the years ended June 30, 2023 and 2022, decreases in the value of liabilities under split-interest agreements related to pooled income funds, charitable remainder trusts, and charitable gift annuities amounted to \$68,075 and \$112,093, respectively, and are included in change in value of split-interest agreements in the accompanying statements of activities.

k. Beneficial Interest in Perpetual Trusts

The Museum receives contributions of interests in irrevocable perpetual trusts of which third-party entities serve as trustee. Initial recognition and subsequent adjustments to the Museum's beneficial interest in the trust assets' carrying values are recognized as gifts and bequests revenue and changes in value of beneficial interest in perpetual trusts, respectively, and are classified as net assets with donor restrictions, as the trusts are to be invested in perpetuity by the trustee. The Museum's beneficial interest in perpetual trusts are measured at fair value based on the Museum's interest in the underlying fair value of the trust assets.

Honolulu Museum of Art

Notes to Financial Statements
June 30, 2023 and 2022

1. Summary of Operations and Significant Accounting Policies (continued)

k. Beneficial Interest in Perpetual Trusts (continued)

For the years ended June 30, 2023 and 2022, income generated from the Museum's interests in beneficial interest in perpetual trusts amounted to \$1,309,338 and \$1,235,829, respectively, and are recorded as income from trusts in the accompanying statements of activities. For the years ended June 30, 2023 and 2022, the increase (decrease) in the value of beneficial interests in perpetual trusts amounted to \$1,312,327 and \$(4,275,713), respectively, and are recorded as change in value of beneficial interest in perpetual trusts in the accompanying statements of activities. There were no new beneficial interests in perpetual trusts received in 2023 and 2022.

l. Art Collection

The Museum's art collection comprises works of art, which are held for exhibition, research, and educational purposes. Each of the items is cataloged, preserved, and cared for, and activities verifying their existence and assessing their condition are performed continuously. The collections are subject to a policy that requires proceeds from their sales and deaccessions to be used to acquire other items for the collection.

Works of art in the Museum's collection are not recognized as assets in the statements of financial position. Purchases of art are recorded as decreases in net assets without donor restrictions in the year in which the items are acquired.

m. Income Taxes

The Museum is exempt from income taxes under Section 501 (c)(3) of the Internal Revenue Code and the Hawaii Revised Statutes. The Museum is also exempt from Hawaii general excise tax on gross receipts directly related to its mission. However, the Museum is subject to income and Hawaii general excise taxes on any net income or gross receipts that are derived from a trade or business, regularly carried on, and not in furtherance of the purposes for which it was granted exemption. No income tax provision has been recorded as the net income, if any, from any unrelated trade or business, in the opinion of management, is not material to the financial statements taken as a whole.

Honolulu Museum of Art

Notes to Financial Statements
June 30, 2023 and 2022

1. Summary of Operations and Significant Accounting Policies (continued)

m. Income Taxes (continued)

The Museum recognizes the effect of income tax positions only if it is more-likely-than-not that the tax position will be sustained upon examination by taxing authorities, based on the technical merits of the position. The tax effects recognized in the financial statements from such a position are measured based on the largest amount that has a greater than 50 percent likelihood of being realized upon ultimate settlement. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. Any interest or penalties related to any unrecognized tax benefit/liability are classified as management and general expenses.

The Museum has evaluated its tax positions and determined that there were no uncertain tax positions at June 30, 2023 and 2022. Accordingly, there are no interest or penalties recognized during the years ended June 30, 2023 and 2022. Tax years from 2021 are open for federal income tax examination.

n. Long-Lived Assets

Long-lived assets, such as property, plant, and equipment, and purchased intangibles subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset be tested for possible impairment, the Museum first compares undiscounted cash flows expected to be generated by an asset to the carrying value of the asset. If the carrying value of the long-lived asset is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques, including discounted cash flow models, quoted market values, and third-party independent appraisals, as considered necessary.

o. Fair Value Measurements

The Museum applies the provisions of ASC Topic 820 to financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis. The Museum's alternative investments consist of hedge funds, opportunistic and other funds of funds, and have been measured at fair value using the net asset value per share (or its equivalent) as a practical expedient in accordance with ASC Topic 820-10. ASC Topic 820-10 allows for the exclusion of the Museum's alternative investments from classification in the fair value hierarchy.

Honolulu Museum of Art

Notes to Financial Statements
June 30, 2023 and 2022

1. Summary of Operations and Significant Accounting Policies (continued)

p. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (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 revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the valuation of contributions and other receivables, long-term investments, beneficial interest in perpetual trusts, and liabilities under split-interest agreements. Actual results could differ from those estimates.

q. Functional Expenses

The financial statements report certain categories of expenses that are attributable to one or more programs or supporting functions of the Museum. Accordingly, certain costs have been allocated among the programs and supporting services benefitted based on direct costs incurred and management's estimates of resources consumed by these functions.

r. Recent Accounting Standards

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. In July 2018, the FASB also issued ASU 2018-11, *Leases (Topic 842): Targeted Improvements*, which provided an additional transition option that allows companies to continue applying the guidance under the current lease standard in the comparative periods presented in the financial statements. The Museum may adopt the guidance either (1) retrospectively to each prior reporting period presented in the financial statements with a cumulative-effect adjustment recognized at the beginning of the earliest comparative period presented or (2) retrospectively at the beginning of the period of adoption through a cumulative-effect adjustment. In June 2020, the FASB issued ASU 2020-05, which delayed the effective date of the guidance to fiscal years beginning after December 15, 2021. The Museum adopted the guidance on July 1, 2022. The adoption of this guidance did not have a significant impact to the financial statements.

Honolulu Museum of Art

Notes to Financial Statements
June 30, 2023 and 2022

2. Contributions Receivable

The amount of contributions receivable at June 30, 2023 and 2022 are as follows:

	<u>2023</u>	<u>2022</u>
Receivable in less than one year	\$ 100,600	\$ 1,717,913
Receivable in one to five years	<u>400,000</u>	<u>-</u>
Total receivable	<u>\$ 500,600</u>	<u>\$ 1,717,913</u>

Contributions receivable totaling \$500,600 and \$1,717,913 included in assets at June 30, 2023 and 2022, respectively, are measured on a nonrecurring basis using a discounted cash flow approach with estimates of future cash flows.

3. Contributed Rent

The Museum leases land and a building for its Art School from the state of Hawaii. Effective December 1, 2016, the Museum entered into a lease agreement with the state of Hawaii for a term of 65 years, through November 30, 2081. For the 10-year period beginning December 1, 2016, the lease is payable in annual installments of \$480. The annual rent will be reopened and re-determined at the tenth (2026), twentieth (2036), thirtieth (2046), fortieth (2056), fiftieth (2066) and sixtieth (2076) years of the lease.

Contributed rent represents the net present value of the difference between the fair rental value of the property and the stated amount of the lease payments, which does not exceed the fair value of the real property at the lease commencement date. The contributed rent is considered a net asset with donor restrictions and will be released to net assets without donor restrictions over the lease term.

At June 30, 2023 and 2022, contributed rent amounted to \$477,253 and \$624,449, respectively, and the related amortization for the years ended June 30, 2023 and 2022 amounted to \$147,196 and \$150,795, respectively. At the inception of the lease, the estimated fair value was computed by discounting the difference between the fair value of rent over the amount of rent to be paid over a 10-year period using a risk-free rate as of December 1, 2016 (lease date) of 2.45%.

Honolulu Museum of Art

Notes to Financial Statements
June 30, 2023 and 2022

4. Land, Buildings, and Equipment

A summary of land, buildings, and equipment at June 30, 2023 and 2022 is as follows:

	Depreciable lives	Cost	
		2023	2022
Depreciable assets:			
Land improvements	20 years	\$ 1,140,202	\$ 1,056,155
Buildings	20–50 years	39,476,133	35,370,165
Equipment	5–10 years	6,999,496	6,744,893
		47,615,831	43,171,213
Less accumulated depreciation		(24,993,459)	(24,011,816)
		22,622,372	19,159,397
Land		4,211,552	4,211,552
Construction in progress		11,381	3,618,909
		<u>\$ 26,845,305</u>	<u>\$ 26,989,858</u>

Depreciation and amortization expense for the years ended June 30, 2023 and 2022 was \$1,060,370 and \$1,003,596, respectively.

5. Art Collection

The Museum's collections, acquired through purchase and contributions, are not recognized as assets on the statements of financial position. Purchases of collection items are recorded in the year in which the items were acquired. Contributed collection items are not reflected in the financial statements. The cost of art objects purchased was \$90,042 and \$189,302 for the years ended June 30, 2023 and 2022, respectively, and is reported in the accompanying statements of activities.

Gifts of cash or other property restricted by donors for the purchase of art and artifacts for the collection or proceeds from deaccessions are recognized as income in net assets with donor restrictions and are only available to purchase art and artifacts for the Museum's collection. Proceeds from sale of collection items during the years ended June 30, 2023 and 2022 was nil. Unexpended gifts are included in net assets with donor restrictions at June 30, 2023 and 2022.

Honolulu Museum of Art

Notes to Financial Statements
June 30, 2023 and 2022

6. CARES Act

The Coronavirus Aid, Relief and Economic Security Act (CARES Act) was enacted on March 27, 2020 to amongst other provisions, provide emergency assistance for individuals, families and businesses affected by the coronavirus pandemic. In May 2020, the Museum received funds from a loan agreement of \$1,516,700 pursuant to the Payroll Protection Program (PPP) under the CARES Act. The loan and accrued interest may be forgiven if the Museum uses the funds for eligible purposes. The Museum determined it substantially met the required conditions of the PPP loan, such as maintaining headcount, limitations on compensation reduction and spending funds on qualified expenses, and recognized the entire amount as PPP grant revenue for the year ended June 30, 2021. In September 2021, the Museum applied for and was granted forgiveness of the entire balance of the PPP loan. The final determination of compliance with the requirements and forgiveness is subject to audit by the federal government. If it is determined that the Museum did not expend the funds for qualified purposes, any amounts identified may need to be repaid with interest at a rate of 1.00%.

Additionally, in 2022, the Museum was awarded a \$2,656,992 Shuttered Venue Operators Grant (SVOG) from the U.S. Small Business Administration. The SVOG, established by the Economic Aid to Hard-Hit Small Businesses, Nonprofits and Venues Act, is a grant to provide support to entertainment and cultural organizations during the uncertain economic conditions caused by the coronavirus. The Museum met the conditions of the SVOG grant in fiscal year 2022 and recorded the entire amount as governmental grants revenue in the accompanying statement of activities for the year ended June 30, 2022.

7. Loans Payable

Loans payable at June 30, 2023 and 2022 consist of the following:

	<u>2023</u>	<u>2022</u>
Borrowings under a \$4,000,000 term loan with a bank, interest at 2.40%, interest-only payments due monthly, principal due upon maturity in November 2023; secured by certain investments	\$ 4,000,000	\$ 4,000,000
Borrowings under a \$3,000,000 term loan with a bank, interest at 3.94%, interest-only payments due monthly, principal due upon maturity in December 2023; secured by certain investments	<u>2,900,000</u>	<u>2,900,000</u>
Total loans payable	<u>\$ 6,900,000</u>	<u>\$ 6,900,000</u>

Honolulu Museum of Art

Notes to Financial Statements
June 30, 2023 and 2022

7. Loans Payable (continued)

Interest expense on loans payable totaled \$226,424 and \$196,957 for the years ended June 30, 2023 and 2022, respectively.

Subsequent to year end, the \$4 million loan was paid off in full in December 2023. The maturity date for the \$2.9 million loan was extended by the bank through April 2024 and was paid off in full in March 2024.

8. Line of Credit

The Museum has access to a revolving line of credit in the amount of \$500,000 with an interest rate of 5.00% at June 30, 2023 and 2022. There were no outstanding balances on the line of credit at June 30, 2023 and 2022. The line of credit has been renewed and matures on September 1, 2024.

9. Leases

The Museum leases land, building, and improvements from the state of Hawaii for its Art School under an operating lease agreement that expires in 2081 (see Note 3). The Museum also leases storage space under various operating leases on a month-to-month basis.

Total rent expense under operating leases for the years ended June 30, 2023 and 2022 was \$270,361 and \$353,826, respectively.

Future minimum lease commitments under non-cancelable operating leases as of June 30, 2023 are as follows:

Year ending June 30:	
2024	\$ 480
2025	480
2026	480
2027	480
2028	480
Thereafter	<u>24,200</u>
	<u>\$ 26,600</u>

Honolulu Museum of Art

Notes to Financial Statements
June 30, 2023 and 2022

10. Net Assets with Donor Restrictions

Net assets with donor restrictions at June 30, 2023 and 2022 are available for the following purposes:

	<u>2023</u>	<u>2022</u>
Subject to expenditure for specified purpose:		
Named galleries and other purposes	\$ 18,328,411	\$ 16,683,931
Art acquisitions	5,045,957	5,795,645
Curatorial and conservation	866,750	424,369
Education	3,533,077	3,009,876
Special exhibitions	506,431	592,791
Spalding House	1,937,032	2,326,425
	<u>30,217,658</u>	<u>28,833,037</u>
Endowments to be held in perpetuity:		
Museum operations	36,178,138	34,841,843
Art acquisitions	4,957,523	4,772,651
Curatorial and conservation	4,286,390	3,989,316
Education	8,451,868	8,108,481
Special exhibitions	1,060,996	1,021,170
	<u>54,934,915</u>	<u>52,733,461</u>
Not subject to spending policy or appropriation --		
Beneficial interests in perpetual trusts	<u>18,302,668</u>	<u>16,990,341</u>
Total net assets with donor restrictions	<u>\$ 103,455,241</u>	<u>\$ 98,556,839</u>

Net assets in the amount of \$3,930,220 and \$5,918,042 for the years ended June 30, 2023 and 2022, respectively, were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors as follows:

	<u>2023</u>	<u>2022</u>
Museum operations and other	\$ 2,751,570	\$ 5,838,040
Education	579,847	20,000
Curatorial and conservation	221,948	-
Art acquisitions	207,674	-
Special exhibitions	169,181	60,002
	<u>\$ 3,930,220</u>	<u>\$ 5,918,042</u>

Honolulu Museum of Art

Notes to Financial Statements
June 30, 2023 and 2022

11. Retirement Benefit Plans

The Museum has a defined contribution plan covering all eligible employees of the Museum. Matching contributions to the defined contribution plan are made at the Museum's discretion. Total contributions made by the Museum to the defined contribution plan were \$153,891 and \$129,555 for the years ended June 30, 2023 and 2022, respectively.

12. Endowments

The Museum's endowment funds consist of approximately 50 individual donor-restricted funds and board-designated funds established for a variety of purposes at June 30, 2023 and 2022:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
2023:			
Donor-restricted funds	\$ -	\$ 83,724,679	\$ 83,724,679
Board-designated funds	<u>769,227</u>	<u>-</u>	<u>769,227</u>
	<u>\$ 769,227</u>	<u>\$ 83,724,679</u>	<u>\$ 84,493,906</u>
2022:			
Donor-restricted funds	\$ -	\$ 72,303,112	\$ 72,303,112
Board-designated funds	<u>740,219</u>	<u>-</u>	<u>740,219</u>
	<u>\$ 740,219</u>	<u>\$ 72,303,112</u>	<u>\$ 73,043,331</u>

Honolulu Museum of Art

Notes to Financial Statements
June 30, 2023 and 2022

12. Endowments (continued)

For the years ended June 30, 2023 and 2022, the changes in donor-restricted endowment net assets are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, June 30, 2021	\$ 888,790	\$ 86,273,027	\$ 87,161,817
Investment return, net	(112,736)	(8,458,915)	(8,571,651)
Change in value of beneficial interest in perpetual trusts	-	(4,275,713)	(4,275,713)
Gifts and bequests	-	1,409,653	1,409,653
Appropriation of endowment assets pursuant to spending-rate policy	<u>(35,835)</u>	<u>(2,644,940)</u>	<u>(2,680,775)</u>
Endowment net assets, June 30, 2022	\$ 740,219	\$ 72,303,112	\$ 73,043,331
Investment return, net	68,140	5,399,515	5,467,655
Change in value of beneficial interest in perpetual trusts	-	1,312,327	1,312,327
Gifts and bequests	-	299,143	299,143
Proceeds from sale of Spalding House	-	7,363,683	7,363,683
Appropriation of endowment assets pursuant to spending-rate policy	<u>(39,132)</u>	<u>(2,953,101)</u>	<u>(2,992,233)</u>
Endowment net assets, June 30, 2023	<u>\$ 769,227</u>	<u>\$ 83,724,679</u>	<u>\$ 84,493,906</u>

Honolulu Museum of Art

Notes to Financial Statements
June 30, 2023 and 2022

12. Endowments (continued)

a. Interpretations of Relevant Law

The Board of the Museum (Board) has interpreted Hawaii's Uniform Prudent Management of Institutional Funds Act (HUPMIFA), which was enacted by the state of Hawaii on July 1, 2009, as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Museum classifies as donor restricted net assets (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 instrument at the time the accumulation is added to the fund. Unless otherwise stated in the gift instrument, the remaining portion of the donor-restricted endowment fund that is not classified in restricted in perpetuity is classified as donor restricted net assets until those amounts are expended by the Museum in a manner consistent with the standard of prudence prescribed by HUPMIFA. In accordance with HUPMIFA, the Museum considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Museum and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Museum
- (7) The investment policies of the Museum

Honolulu Museum of Art

Notes to Financial Statements
June 30, 2023 and 2022

12. Endowments (continued)

b. 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 HUPMIFA requires the Museum to retain as a fund of perpetual duration. The Museum considers prudence in maintaining an endowment fund in perpetuity, so while spending may occur from an endowment fund whose fair value is below its historic value, the Museum has determined that its policies will continue the perpetual nature of the endowment over time. Deficiencies of this nature that are reported in net assets with donor restrictions were \$16,500,189 and \$18,495,176 as of June 30, 2023 and 2022, respectively. These funds had an original gift value of \$72,360,859 and \$64,703,584 and a fair value of \$55,860,670 and \$46,208,408 as of June 30, 2023 and 2022, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred due to the investment of contributions restricted in perpetuity and continued appropriation for certain programs that was deemed prudent by the Board.

c. Return Objectives and Risks Parameters

The Museum has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Museum must hold in perpetuity or for donor-specified periods. Under this policy, as approved by the Board, the endowment assets are invested in a manner that is intended to produce results that exceed certain published indexes while assuming a moderate level of investment risk.

d. Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Museum relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Museum targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Honolulu Museum of Art

Notes to Financial Statements
June 30, 2023 and 2022

12. Endowments (continued)

e. Spending Policy

The Museum's spending policy is to distribute 5% annually from the total endowment fund as calculated by a trailing 12-quarter moving average of the total fund as determined on June 30 of the fiscal year under consideration. Over the long term, the Museum expects the current spending policy to allow its endowment to be a balance between preserving the real (after inflation) purchasing power of the endowment principal with the need to fund program-related expenses.

13. Liquidity and Availability

Financial assets available for general expenditures, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, are comprised of the following:

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 2,186,224	\$ 4,031,379
Contributions receivable	100,600	763,693
Operating investments	<u>1,941,893</u>	<u>1,199,906</u>
	<u>\$ 4,228,717</u>	<u>\$ 5,994,978</u>

The Museum's endowment funds consist of donor restricted endowments and funds designated by the board as endowments (quasi-endowment). Income from donor-restricted endowments are restricted for specific purposes, with the exception of the amounts available for general use. Donor-restricted endowment funds and the Museum's quasi-endowment are subject to an annual spending rate of 5% (as described in Note 12).

As part of the Museum's liquidity management, financial assets are made available as its general expenditures, liabilities, and other obligations come due. The Museum also deposits cash in excess of daily requirements into a Maximizer account and has a line of credit in the amount of \$500,000, which it could draw upon. The Museum is also in the process of executing a secured margin line of credit in the amount of \$2,800,000. As of the date of the auditor's report, the agreement has not yet been finalized.

Honolulu Museum of Art

Notes to Financial Statements
June 30, 2023 and 2022

13. Liquidity and Availability (continued)

Additionally, the Museum's quasi-endowment is valued at \$769,227 and \$740,219 as of June 30, 2023 and 2022, respectively. Although the Museum does not intend to spend from the quasi-endowment (other than amounts appropriated for general expenditure as part of the Museum's Board's annual budget approval and appropriation), these amounts could be made available if necessary. However, both the quasi-endowment and donor-restricted endowments contain investments with restrictions on sales (as described in Note 14).

14. Fair Value Measurements

a. Fair Value Hierarchy

ASC Topic 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Museum has the ability to access at the measurement date.
- Level 2 inputs are other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety at the measurement date.

b. Fair Value of Financial Instruments

The fair value of financial instruments represents management's best estimates of the amounts that would be received to sell those assets or that would be paid to transfer those liabilities in an orderly transaction between market participants at that date. Those fair value measurements maximize the use of observable inputs. However, in situations where there is little, if any, market activity for the asset or liability at the measurement date, the fair value measurement reflects management's own judgments about the assumptions that market participants would use in pricing the asset or liability. Those judgments are developed by management based on the best information available in the circumstances.

Honolulu Museum of Art

Notes to Financial Statements
June 30, 2023 and 2022

14. Fair Value Measurements (continued)

b. Fair Value of Financial Instruments (continued)

The fair value of investments in marketable securities is based primarily on quoted market prices. The fair value of other investments that do not have readily determinable fair values is generally based on quoted market prices of the underlying investments and information provided by the respective external investment managers at the most recent valuation date and adjusted for cash flows from the valuation date to fiscal year-end, if applicable. Beneficial interest in perpetual trusts are recorded at fair value based on the underlying interest of the fair value of the trust assets. The beneficial interest in perpetual trusts are considered Level 3 as the securities are neither in the possession nor under the control of the Museum. As described in Note 1.o., the Museum utilized the NAV per share for certain investments in alternative structures as a practical expedient for the estimation of the fair value of these investments.

The carrying amount of liabilities under split-interest agreements approximates fair value as discount rates used are generally commensurate with current published risk-free rates.

Honolulu Museum of Art

Notes to Financial Statements
June 30, 2023 and 2022

14. Fair Value Measurements (continued)

b. Fair Value of Financial Instruments (continued)

The following tables present assets that are measured at fair value on a recurring basis at June 30, 2023 and 2022:

	June 30, 2023	Fair Value Measurements at Reporting Date Using:		
		Level 1	Level 2	Level 3
Long-term investments:				
Cash	\$ 937,260	\$ 937,260	\$ -	\$ -
Corporate stocks	1,088,996	1,088,996	-	-
ETF and closed end funds	423,132	406,452	16,680	-
Mutual funds:				
Fixed income	1,300,703	1,300,703	-	-
Domestic equities	21,143,966	21,143,966	-	-
Opportunistic and other	611,820	611,820	-	-
	<u>25,505,877</u>	<u>25,489,197</u>	<u>16,680</u>	<u>-</u>
Alternative investments measured at net asset value:				
Private funds	<u>8,135,806</u>			
Pooled separate account	<u>11,132,909</u>			
Hedge funds:				
Real estate assets	2,832,694			
Domestic equities	5,078,285			
Foreign equities	8,178,090			
Private equities	3,343,589			
Private credit	<u>3,522,016</u>			
Total hedge funds	<u>22,954,674</u>			
Total alternative investments	<u>42,223,389</u>			
Total long-term investments	67,729,266			
Beneficial interest in perpetual trusts	<u>18,302,668</u>	<u>-</u>	<u>-</u>	<u>18,302,668</u>
Total assets	<u>\$ 86,031,934</u>	<u>\$ 25,489,197</u>	<u>\$ 16,680</u>	<u>\$ 18,302,668</u>
Liabilities under split-interest agreements	<u>\$ 1,295,686</u>	<u>\$ -</u>	<u>\$ 1,295,686</u>	<u>\$ -</u>

Honolulu Museum of Art

Notes to Financial Statements
June 30, 2023 and 2022

14. Fair Value Measurements (continued)

b. Fair Value of Financial Instruments (continued)

	June 30, 2022	Fair Value Measurements at Reporting Date Using:		
		Level 1	Level 2	Level 3
Long-term investments:				
Cash	\$ 904,132	\$ 904,132	\$ -	\$ -
Corporate stocks	919,364	919,364	-	-
ETF and closed end funds	722,503	380,250	342,253	-
Mutual funds:				
Fixed income	1,181,076	1,181,076	-	-
Domestic equities	18,812,198	18,812,198	-	-
Opportunistic and other	666,289	666,289	-	-
	<u>23,205,562</u>	<u>22,863,309</u>	<u>342,253</u>	<u>-</u>
Alternative investments measured at net asset value:				
Private Funds	<u>6,641,664</u>			
Pooled separate account	<u>11,857,915</u>			
Hedge funds:				
Real estate assets	3,627,684			
Domestic equities	4,674,256			
Foreign equities	7,676,780			
Private equities	3,500,000			
Private credit	3,412,099			
Total hedge funds	<u>22,890,819</u>			
Total alternative investments	<u>41,390,398</u>			
Total long-term investments	64,595,960			
Beneficial interest in perpetual trusts	16,990,341	-	-	16,990,341
Total assets	<u>\$ 81,586,301</u>	<u>\$ 22,863,309</u>	<u>\$ 342,253</u>	<u>\$ 16,990,341</u>
Liabilities under split-interest agreements	<u>\$ 1,363,761</u>	<u>\$ -</u>	<u>\$ 1,363,761</u>	<u>\$ -</u>

Honolulu Museum of Art

Notes to Financial Statements
June 30, 2023 and 2022

14. Fair Value Measurements (continued)

b. Fair Value of Financial Instruments (continued)

The following table provides a summary of changes in the fair value of the beneficial interest in perpetual trusts.

	<u>2023</u>	<u>2022</u>
Beginning Balance	\$ 16,990,341	\$ 21,266,054
Change in value of beneficial interest of perpetual trust	<u>1,312,327</u>	<u>(4,275,713)</u>
Ending Balance	<u>\$ 18,302,668</u>	<u>\$ 16,990,341</u>

The following lists the significant restrictions on the Museum's ability to sell its alternative investments, including the redemption frequency and notice period, as of June 30, 2023 and 2022:

- Investments in hedge funds and fund of funds, except for the investment in the marketable alternative assets hedge fund and opportunistic fund of funds, are subject to redemption policies ranging from daily to quarterly with redemption notice periods ranging from 1 to 100 days.
- Investment in the marketable alternative assets hedge fund is subject to a redemption period of 90 days. Investments in the opportunistic fund are self-liquidating and distribute capital as income is generated or when assets are sold.

There were no unfunded commitments related to any alternative investments.

15. Subsequent Events

The Museum has evaluated subsequent events from the balance sheet date through September 11, 2024, the date at which the financial statements were available to be issued, and determined there were no other items to disclose.