

Honolulu Museum of Art

Financial Statements

June 30, 2021 and 2020

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:

Report on the Financial Statements

We have audited the accompanying financial statements of Honolulu Museum of Art (the Museum), which comprise the statements of financial position as of June 30, 2021 and 2020, the related statements of activities, cash flows and functional expenses for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Honolulu Museum of Art, as of June 30, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 16 to the financial statements, the Museum's 2020 financial statements have been restated. Our opinion is not modified with respect to that matter.

Handwritten signature in black ink that reads "KMH LLP". The letters are stylized and cursive.

KMH LLP

Honolulu, Hawaii
March 16, 2022

Honolulu Museum of Art

Statements of Financial Position
June 30, 2021 and 2020

	<u>Assets</u>	
	2021	2020
Cash and Cash Equivalents	\$ 8,798,421	\$ 10,248,559
Inventories	298,511	319,986
Contributions Receivable	369,209	1,112,493
Prepaid Expenses and Other	341,051	362,844
Contributed Rent	775,244	929,742
Long-term Contributions Receivable, net	1,265,544	1,543,654
Land, Buildings, and Equipment held for sale, net	6,350,486	7,372,011
Land, Buildings, and Equipment, net	24,995,737	24,637,652
Long-term Investments	72,064,201	60,324,198
Beneficial Interest in Perpetual Trusts	21,266,054	17,293,849
	<u>\$ 136,524,458</u>	<u>\$ 124,144,988</u>
Total assets		
	<u>Liabilities and Net Assets</u>	
Liabilities:		
Accounts payable, accrued expenses, and other	\$ 852,889	\$ 1,121,509
Paycheck Protection Program refundable advance	-	1,516,700
Liabilities under split-interest agreements	1,475,854	1,591,443
Loans payable	7,000,000	7,000,000
Deferred revenue	30,163	28,387
Post-retirement obligation	-	378,731
	<u>9,358,906</u>	<u>11,636,770</u>
Total liabilities		
Commitments and Contingencies		
Net Assets (As Restated):		
Without donor restrictions:		
Undesignated	18,219,782	16,782,173
Board designated	888,790	800,911
	<u>19,108,572</u>	<u>17,583,084</u>
With donor restrictions	108,056,980	94,925,134
	<u>127,165,552</u>	<u>112,508,218</u>
Total net assets		
Total liabilities and net assets	<u>\$ 136,524,458</u>	<u>\$ 124,144,988</u>

See accompanying notes to financial statements.

Honolulu Museum of Art

Statement of Activities

For the Year Ended June 30, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues, Gains, and Other Support:			
Gifts and bequests	\$ 2,143,366	\$ 1,831,384	\$ 3,974,750
Net realized and unrealized gain on investments	408,116	11,314,384	11,722,500
Gain on sale of property held for sale, net	-	1,661,830	1,661,830
Change in value of split-interest agreements, net	(124,823)	-	(124,823)
Change in value of beneficial interest in perpetual trusts	-	3,972,205	3,972,205
Dividends and interest, net of investment fees and expenses of \$378,292	105,128	843,772	948,900
Museum shops and cafes	587,380	-	587,380
Income from Trusts:			
R. Allerton Acquisition Fund and R. Allerton Trust	738,594	46,668	785,262
Others	377,925	27,421	405,346
Membership dues	551,065	-	551,065
Tuition and fees	(2,309)	-	(2,309)
Admissions	198,966	-	198,966
Governmental grants	-	584,603	584,603
Special events and other, net	115,292	-	115,292
Paycheck Protection Program grant	-	1,516,700	1,516,700
Net assets released from restrictions	8,667,121	(8,667,121)	-
Total revenues, gains, and other support	<u>13,765,821</u>	<u>13,131,846</u>	<u>26,897,667</u>
Expenses:			
Program services:			
Education	2,295,596	-	2,295,596
Special exhibitions	2,393,137	-	2,393,137
Curatorial and conservation	1,876,420	-	1,876,420
Museum shops and cafes	1,226,580	-	1,226,580
Art acquisitions	855	-	855
Total program services	<u>7,792,588</u>	<u>-</u>	<u>7,792,588</u>
Supporting services:			
Management and general	3,152,454	-	3,152,454
Fundraising and development	1,295,291	-	1,295,291
Total supporting services	<u>4,447,745</u>	<u>-</u>	<u>4,447,745</u>
Total expenses	<u>12,240,333</u>	<u>-</u>	<u>12,240,333</u>
Change in net assets	1,525,488	13,131,846	14,657,334
Net Assets at Beginning of Year	<u>17,583,084</u>	<u>94,925,134</u>	<u>112,508,218</u>
Net Assets at End of Year	<u>\$ 19,108,572</u>	<u>\$ 108,056,980</u>	<u>\$ 127,165,552</u>

See accompanying notes to financial statements.

Honolulu Museum of Art

Statement of Activities

For the Year Ended June 30, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues, Gains, and Other Support:			
Gifts and bequests	\$ 1,734,730	\$ 7,559,860	\$ 9,294,590
Net realized and unrealized loss on investments	(107,786)	(1,307,679)	(1,415,465)
Change in value of split-interest agreements, net	(117,809)	(6)	(117,815)
Change in value of beneficial interest in perpetual trusts	-	(348,511)	(348,511)
Dividends and interest, net of investment fees and expenses of \$378,292	112,562	1,086,831	1,199,393
Museum shops and cafes	1,189,748	-	1,189,748
Income from Trusts:			
R. Allerton Acquisition Fund and R. Allerton Trust	714,785	44,966	759,751
Others	336,087	27,767	363,854
Membership dues	645,500	-	645,500
Tuition and fees	720,222	-	720,222
Admissions	444,531	-	444,531
Special events and other, net	866,425	-	866,425
Net assets released from restrictions	<u>3,364,757</u>	<u>(3,364,757)</u>	<u>-</u>
Total revenues, gains, and other support	<u>9,903,752</u>	<u>3,698,471</u>	<u>13,602,223</u>
Expenses:			
Program services:			
Education	3,762,691	-	3,762,691
Special exhibitions	2,807,340	-	2,807,340
Curatorial and conservation	1,996,983	-	1,996,983
Museum shops and cafes	1,751,825	-	1,751,825
Art acquisitions	<u>23,057</u>	<u>-</u>	<u>23,057</u>
Total program services	<u>10,341,896</u>	<u>-</u>	<u>10,341,896</u>
Supporting services:			
Management and general	3,545,640	-	3,545,640
Fundraising and development	<u>1,323,225</u>	<u>-</u>	<u>1,323,225</u>
Total supporting services	<u>4,868,865</u>	<u>-</u>	<u>4,868,865</u>
Total expenses	<u>15,210,761</u>	<u>-</u>	<u>15,210,761</u>
Change in net assets	(5,307,009)	3,698,471	(1,608,538)
Net Assets at Beginning of Year (As Restated)	<u>22,890,093</u>	<u>91,226,663</u>	<u>114,116,756</u>
Net Assets at End of Year (As Restated)	<u>\$ 17,583,084</u>	<u>\$ 94,925,134</u>	<u>\$ 112,508,218</u>

See accompanying notes to financial statements.

Honolulu Museum of Art

Statement of Functional Expenses
For the Year Ended June 30, 2021

	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	\$ 842,195	\$ 779,249	\$ 1,065,434	\$ 551,926	\$ -	\$ 3,238,804	\$ 1,617,254	\$ 808,147	\$ 2,425,401	\$ 5,664,205
Employee benefits	269,375	205,424	241,739	141,271	-	857,809	508,059	148,867	656,926	1,514,735
Utilities	219,890	238,999	97,005	51,459	-	607,353	120,348	13,437	133,785	741,138
Professional and other services	152,275	159,615	55,236	67,364	-	434,490	431,802	16,643	448,445	882,935
Depreciation and amortization	305,057	429,571	174,054	84,235	-	992,917	13,018	23,606	36,624	1,029,541
Purchases for resale	-	-	-	224,829	-	224,829	-	-	-	224,829
Repairs and maintenance	145,498	236,583	96,644	60,050	-	538,775	484,024	12,928	496,952	1,035,727
Rental	157,851	7,260	4,014	100	-	169,225	43,937	28	43,965	213,190
Supplies	27,714	32,048	20,913	13,675	-	94,350	34,491	9,222	43,713	138,063
Publicity and printing	1,690	10,957	812	97	-	13,556	3,731	231,318	235,049	248,605
Insurance	100,384	47,257	72,239	8,594	-	228,474	27,738	2,408	30,146	258,620
Art acquisitions	-	-	-	-	855	855	-	-	-	855
Hospitality	99	326	184	(23)	-	586	15,478	2,353	17,831	18,417
Other	3,376	4,913	2,547	11,305	-	22,141	25,649	276	25,925	48,066
Postage and freight	2,943	105,581	3,699	2,799	-	115,022	4,696	7,515	12,211	127,233
Interest	24,858	52,663	21,338	10,327	-	109,186	124,795	18,651	143,446	252,632
Education and theatre	12,581	-	-	-	-	12,581	-	-	-	12,581
Retirement plans	-	-	-	-	-	-	(320,859)	-	(320,859)	(320,859)
Security	20,391	70,474	13,635	6,599	-	111,099	13,855	1,849	15,704	126,803
Exhibitions	-	-	-	-	-	-	-	-	-	-
Travel	1,991	4,137	1,024	418	-	7,570	763	130	893	8,463
Conservation	-	-	5,716	-	-	5,716	-	-	-	5,716
Books	5,869	77	100	31	-	6,077	2,583	178	2,761	8,838
Interdepartmental	1,559	8,003	87	(8,476)	-	1,173	1,092	(2,265)	(1,173)	-
	<u>\$ 2,295,596</u>	<u>\$ 2,393,137</u>	<u>\$ 1,876,420</u>	<u>\$ 1,226,580</u>	<u>\$ 855</u>	<u>\$ 7,792,588</u>	<u>\$ 3,152,454</u>	<u>\$ 1,295,291</u>	<u>\$ 4,447,745</u>	<u>\$ 12,240,333</u>

See accompanying notes to financial statements.

Honolulu Museum of Art

Statement of Functional Expenses
For the Year Ended June 30, 2020

	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	\$ 1,739,317	\$ 839,562	\$ 1,108,464	\$ 743,464	\$ -	\$ 4,430,807	\$ 1,392,618	\$ 764,253	\$ 2,156,871	\$ 6,587,678
Employee benefits	385,206	253,036	280,283	194,907	-	1,113,432	624,004	160,721	784,725	1,898,157
Utilities	221,599	259,677	50,603	84,116	-	615,995	206,330	2,022	208,352	824,347
Professional and other services	255,625	160,303	34,512	81,538	-	531,978	348,637	48,544	397,181	929,159
Depreciation and amortization	294,344	417,923	156,538	87,431	-	956,236	35,553	19,994	55,547	1,011,783
Purchases for resale	-	-	-	424,944	-	424,944	-	-	-	424,944
Repairs and maintenance	268,622	293,634	71,826	98,548	-	732,630	464,120	3,207	467,327	1,199,957
Rental	241,848	1,265	18,872	362	-	262,347	58,195	-	58,195	320,542
Supplies	120,182	43,849	14,092	30,964	-	209,087	55,237	13,916	69,153	278,240
Publicity and printing	22,930	3,411	17,729	92	-	44,162	3,636	243,734	247,370	291,532
Insurance	37,710	69,686	89,622	13,156	-	210,174	8,292	2,286	10,578	220,752
Art acquisitions	-	-	-	-	23,057	23,057	-	-	-	23,057
Hospitality	18,395	1,958	1,177	987	-	22,517	25,948	8,244	34,192	56,709
Other	10,002	8,249	5,970	15,531	-	39,752	49,717	549	50,266	90,018
Postage and freight	7,929	261,123	99,240	2,947	-	371,239	4,734	18,369	23,103	394,342
Interest	16,490	44,827	7,556	13,333	-	82,206	169,760	15,757	185,517	267,723
Education and theatre	58,809	-	-	-	-	58,809	-	-	-	58,809
Retirement plans	-	-	-	-	-	-	39,254	-	39,254	39,254
Security	19,091	27,551	5,058	8,018	-	59,718	21,295	96	21,391	81,109
Exhibitions	-	76,796	-	-	-	76,796	-	-	-	76,796
Travel	37,147	7,083	15,254	2,989	-	62,473	24,414	21,310	45,724	108,197
Conservation	-	-	16,545	-	-	16,545	-	-	-	16,545
Books	8,581	343	13	24	-	8,961	1,029	1,121	2,150	11,111
Interdepartmental	(1,136)	37,064	3,629	(51,526)	-	(11,969)	12,867	(898)	11,969	-
	<u>\$ 3,762,691</u>	<u>\$ 2,807,340</u>	<u>\$ 1,996,983</u>	<u>\$ 1,751,825</u>	<u>\$ 23,057</u>	<u>\$ 10,341,896</u>	<u>\$ 3,545,640</u>	<u>\$ 1,323,225</u>	<u>\$ 4,868,865</u>	<u>\$ 15,210,761</u>

See accompanying notes to financial statements.

Honolulu Museum of Art

Statements of Cash Flows

For the Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash Flows from Operating Activities:		
Change in net assets	\$ 14,657,334	\$ (1,608,538)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	1,029,541	1,011,783
Amortization of contributed rent	154,498	158,280
Net realized and unrealized (gain) loss on investments	(11,722,500)	1,415,465
Gain on sale of property held for sale, net	(1,661,830)	-
Change in value of beneficial interest in perpetual trusts	(3,972,205)	348,511
Contributions restricted for long-term investment	(123,391)	(6,053,985)
Changes in operating assets and liabilities:		
Decrease (increase) in inventories	21,475	(18,522)
Decrease (increase) in contributions receivable	1,021,394	(77,297)
Decrease (increase) in prepaid expenses and other	21,793	(42,758)
(Decrease) increase in accounts payable, accrued expenses, and other	(352,817)	210,027
(Decrease) increase in Paycheck Protection Program refundable advance	(1,516,700)	1,516,700
Decrease in liabilities under split-interest agreements	(115,589)	(126,139)
Increase (decrease) in deferred revenue	1,776	(7,050)
Decrease in post-retirement obligations	(378,731)	(9,715)
Net cash used in operating activities	<u>(2,935,952)</u>	<u>(3,283,238)</u>
Cash Flows from Investing Activities:		
Proceeds from sale of investments	23,897,706	20,378,903
Proceeds from sale of property held for sale	2,650,000	-
Purchase of investments	(23,915,209)	(18,908,337)
Purchases of land, buildings and equipment	(1,270,074)	(397,375)
Net cash provided by investing activities	<u>1,362,423</u>	<u>1,073,191</u>

(continued)

See accompanying notes to financial statements.

Honolulu Museum of Art

Statements of Cash Flows

For the Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash Flows from Financing Activities:		
Proceeds from contributions restricted for:		
Investment in endowment	\$ 118,356	\$ 6,052,685
Investment in land, buildings, and equipment	5,035	1,300
Net cash provided by financing activities	<u>123,391</u>	<u>6,053,985</u>
Net (decrease) increase in cash and cash equivalents	(1,450,138)	3,843,938
Cash and Cash Equivalents, beginning of year	<u>10,248,559</u>	<u>6,404,621</u>
Cash and Cash Equivalents, end of year	<u><u>\$ 8,798,421</u></u>	<u><u>\$ 10,248,559</u></u>
Supplemental Disclosure of Cash Flow Information --		
Interest Paid	<u>\$ 221,875</u>	<u>\$ 222,525</u>
Supplemental Disclosure of Noncash Activities --		
Purchases of Land, Buildings and Equipment Included in Liabilities	<u><u>\$ 84,197</u></u>	<u><u>\$ -</u></u>

See accompanying notes to financial statements.

Honolulu Museum of Art

Notes to Financial Statements
June 30, 2021 and 2020

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, 2021 and 2020

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, 2021 and 2020

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, 2021 and 2020, land, buildings, and equipment held for sale amounted to \$6,350,486 and \$7,372,011, respectively. During the year ended June 30, 2021, the Museum sold property held for sale and recognized a gain of approximately \$1,662,000.

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.

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.

Honolulu Museum of Art

Notes to Financial Statements
June 30, 2021 and 2020

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

g. Revenue Recognition (continued)

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, 2021 and 2020

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 \$2,432,148 and \$2,119,826 at June 30, 2021 and 2020, 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, 2021 and 2020, there was no contribution revenue recognized under such agreements.

For the years ended June 30, 2021 and 2020, decreases in the value of liabilities under split-interest agreements related to pooled income funds, charitable remainder trusts, and charitable gift annuities amounted to \$115,589 and \$126,139, 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, 2021 and 2020

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

k. Beneficial Interest in Perpetual Trusts (continued)

For the years ended June 30, 2021 and 2020, income generated from the Museum's interests in beneficial interest in perpetual trusts amounted to \$1,190,608 and \$1,123,605, respectively, and are recorded as income from trusts in the accompanying statements of activities. For the years ended June 30, 2021 and 2020, changes in the value of split-interest agreements associated with beneficial interests in perpetual trusts amounted to \$3,972,205 and \$(348,511), 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 2021 and 2020.

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, 2021 and 2020

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, 2021 and 2020. Accordingly, there are no interest or penalties recognized during the years ended June 30, 2021 and 2020. Tax years from 2018 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, 2021 and 2020

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. Risks and Uncertainties

On March 10, 2020, the World Health Organization declared the coronavirus outbreak to be a pandemic. The coronavirus and actions taken around the world to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the environment in which the Museum operates. In the fiscal year ended June 30, 2021, the Museum experienced a decline in various revenue areas due to publicly ordered capacity limits on gatherings and closure orders. The Museum also remained closed during various periods to prepare for the implementation of safety related protocol. Revenue areas impacted included, but were not limited to, admissions, special events, tuition, and membership. In response to the revenue decline, the Museum took actions to reduce costs, including a reduction in staffing. The Museum also postponed a portion of programming activities that were impacted by the uncertainty resulting from the pandemic. While it is unknown how long these conditions will last, the Museum continues to monitor the situation including the financial effect to the Museum. It is reasonably possible that the estimates made in the financial statements may be materially and adversely impacted in the near term as a result of these conditions.

Honolulu Museum of Art

Notes to Financial Statements
June 30, 2021 and 2020

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

r. Risks and Uncertainties (continued)

On March 27, 2020, the Coronavirus Aid, Relief and Economic Security Act (CARES Act), was enacted to, amongst other provisions, provide emergency assistance for individuals, families and businesses affected by the coronavirus pandemic (see Note 6). Additionally, on July 8, 2021, the Museum was awarded a \$1,771,328 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.

s. Reclassifications

Certain reclassifications were made to prior year's financial statements to confirm to the 2021 presentation. Such reclassifications had no impact on the previously reported change in net assets.

t. Recently Issued Accounting Standards

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*, which sets out the principles for the recognition, measurement, presentation and disclosure of leases. The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight line basis over the term of the lease respectively. A lessee is also required to record a right of use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases. 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 is currently assessing the impact of ASU 2016-02 on its financial position and results of operations and has not determined if the adoption will have a material effect on its financial statements.

Honolulu Museum of Art

Notes to Financial Statements
June 30, 2021 and 2020

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

t. Recently Issued Accounting Standards (continued)

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosure by Not-for-Profit Entities for Contributed Nonfinancial Assets*. This ASU requires that a not-for-profit present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash and other financial assets. It also requires a not-for-profit to disclose a disaggregation of the amount of contributed nonfinancial assets recognized within the statement of activities by category that depicts the type of contributed nonfinancial assets and qualitative disclosures for each disaggregated category. The amendments in this ASU should be applied on a retrospective basis and are effective for annual periods beginning after June 15, 2021. Early adoption is permitted. The Museum is currently assessing the impact of ASU 2020-07 and has not determined if the adoption will have a material effect on its financial statements.

u. Recently Adopted Accounting Standards

In March 2019, the FASB issued ASU 2019-03, *Not-for-Profit Entities (Topic 958): Updating the Definition of Collections*. The ASU modifies the definition of “collections” to allow proceeds from sales of collection items to be used to support the direct care of existing collections, in addition to the acquisition of other items for collections. The ASU also requires a collection-holding entity to disclose its policy for the use of proceeds from when collection items are deaccessioned. ASU 2019-03 is effective for annual financial statements issued for fiscal years beginning after December 15, 2019. Effective July 1, 2020, the Museum adopted this ASU. There was no significant impact to the Museum’s financial statements as a result of adopting this ASU.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, which sets forth a new revenue recognition model, codified in FASB ASC Topic 606-10. The ASU requires entities to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Museum adopted the new standard effective July 1, 2020. The adoption did not result in significant changes in the way the Museum previously recognized revenue and therefore retrospective adjustments to the previously issued financial statements were not necessary. The presentation and disclosures of revenues have been enhanced in accordance with the standard.

Honolulu Museum of Art

Notes to Financial Statements
June 30, 2021 and 2020

2. Contributions Receivable

The amount of contributions receivable at June 30, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
Receivable in less than one year	\$ 369,209	\$ 1,112,493
Receivable in one to five years	1,372,584	1,675,000
Less: present value discount	<u>(107,040)</u>	<u>(131,346)</u>
	<u>1,265,544</u>	<u>1,543,654</u>
Total receivable	<u>\$ 1,634,753</u>	<u>\$ 2,656,147</u>

Contributions receivable totaling \$1,634,753 and \$2,656,147 included in assets at June 30, 2021 and 2020, 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, 2021 and 2020, contributed rent amounted to \$775,244 and \$929,742, respectively, and the related amortization for the years ended June 30, 2021 and 2020 amounted to \$154,498 and \$158,280, 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, 2021 and 2020

4. Land, Buildings, and Equipment

A summary of land, buildings, and equipment at June 30, 2021 and 2020 is as follows:

	Depreciable lives	Cost	
		2021	2020
Depreciable assets:			
Land improvements	20 years	\$ 1,056,155	\$ 380,354
Buildings	20–50 years	35,370,165	35,231,937
Equipment	5–10 years	6,634,074	6,393,486
		43,060,394	42,005,777
Less accumulated depreciation		(23,052,263)	(22,056,077)
		20,008,131	19,949,700
Land		4,211,552	4,211,552
Construction in progress		776,054	476,400
		<u>\$ 24,995,737</u>	<u>\$ 24,637,652</u>

Depreciation and amortization expense for the years ended June 30, 2021 and 2020 was \$1,029,541 and \$1,011,783, 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 \$855 and \$23,057 for the years ended June 30, 2021 and 2020, 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, 2021 and 2020 was nil. Unexpended gifts are included in net assets with donor restrictions at June 30, 2021 and 2020.

Honolulu Museum of Art

Notes to Financial Statements
June 30, 2021 and 2020

6. Paycheck Protection Program (PPP)

As discussed in Note 1, the 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 PPP under the CARES Act. The loan and accrued interest may be forgiven if the Museum uses the funds for eligible purposes, including payroll costs, interest on a covered mortgage obligation, rent obligations or covered utility payments, during the 24 week period beginning on the date of the disbursement of the loan.

The Museum has elected to account for the PPP funds as a conditional contribution in accordance with ASC 958-605. In accordance with ASC 958-605, the PPP funds received are initially recorded as a refundable advance liability in the statements of financial position, and are recognized as contribution income when the conditions have been substantially met and qualifying expenses are incurred. The Museum determined it has substantially met the required conditions of the PPP loan, such as maintaining headcount, limitations on compensation reduction and spending funds on qualified expenses, and has 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.

7. Loans Payable

Loans payable at June 30, 2021 and 2020 consist of the following:

	<u>2021</u>	<u>2020</u>
Borrowings under a \$4,000,000 term loan with a bank, interest at 2.60%, interest-only payments due monthly, principal due upon maturity in November 2021; 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>3,000,000</u>	<u>3,000,000</u>
Total loans payable	<u><u>\$ 7,000,000</u></u>	<u><u>\$ 7,000,000</u></u>

In July 2021, the Museum refinanced the \$4,000,000 term loan with a bank. The refinanced loan is secured by certain investments and accrues interest at 2.40%. Interest-only payments are due monthly and the principal is due upon maturity in November 2023.

Honolulu Museum of Art

Notes to Financial Statements
June 30, 2021 and 2020

7. Loans Payable (continued)

Interest expense on loans payable totaled \$221,875 and \$222,977 for the years ended June 30, 2021 and 2020, respectively.

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, 2021 and 2020. There were no outstanding balances on the line of credit at June 30, 2021 and 2020. The line of credit expired on October 1, 2020 and was extended to January 1, 2021. On January 1, 2021, the line of credit was extended to April 1, 2021. On April 1, 2021, the line of credit was extended to September 1, 2022.

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, 2021 and 2020 was \$213,190 and \$320,542, respectively.

Future minimum lease commitments under non-cancelable operating leases as of June 30, 2021 are as follows:

Year ending June 30:	
2022	\$ 480
2023	480
2024	480
2025	480
2026	480
Thereafter	<u>26,600</u>
	<u>\$ 29,000</u>

Honolulu Museum of Art

Notes to Financial Statements
June 30, 2021 and 2020

10. Net Assets with Donor Restrictions

Net assets with donor restrictions at June 30, 2021 and 2020 are available for the following purposes:

	2021	2020 (As Restated)
Subject to expenditure for specified purpose:		
Named galleries and other purposes	\$ 17,280,770	\$ 19,465,345
Art acquisitions	2,273,740	584,798
Curatorial and conservation	1,571,348	577,757
Education	4,210,418	1,765,860
Special exhibitions	543,500	489,316
Spalding House	293,797	276,031
	<u>26,173,573</u>	<u>23,159,107</u>
Endowments to be held in perpetuity:		
Museum operations	41,299,059	34,932,134
Art acquisitions	5,437,936	5,217,191
Curatorial and conservation	4,490,277	4,248,746
Education	8,226,817	8,958,307
Special exhibitions	1,163,264	1,115,800
	<u>60,617,353</u>	<u>54,472,178</u>
Not subject to spending policy or appropriation --		
Beneficial interests in perpetual trusts	<u>21,266,054</u>	<u>17,293,849</u>
Total net assets with donor restrictions	<u>\$ 108,056,980</u>	<u>\$ 94,925,134</u>

Net assets in the amount of \$8,667,121 and \$3,364,757 for the years ended June 30, 2021 and 2020, respectively, were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors as follows:

	2021	2020
Museum operations and other	\$ 7,081,839	\$ 1,272,940
Art acquisitions	326,576	223,099
Curatorial and conservation	402,573	257,496
Education	646,235	1,131,089
Special exhibitions	209,898	480,133
	<u>\$ 8,667,121</u>	<u>\$ 3,364,757</u>

Honolulu Museum of Art

Notes to Financial Statements
June 30, 2021 and 2020

11. Retirement Benefit Plans

Supplemental Retirement Plan

The Museum sponsored a noncontributory defined benefit supplemental retirement plan (supplemental retirement plan) that provided retirement benefits to select full-time employees. At June 30, 2021, there are no remaining participants in the supplemental retirement plan and all obligations have been settled. At June 30, 2021 and 2020, the supplemental retirement plan had no plan assets. Accordingly, the supplemental retirement plan's benefit obligation and funded status amounted to nil and \$(378,731) at June 30, 2021 and 2020, respectively.

For the year ended June 30, 2020, amounts recognized in change in net assets consist of the following:

Net periodic benefit cost	\$	(9,554)
Net loss		<u>(34,151)</u>
	\$	<u>(43,705)</u>

The Museum recognized net periodic pension cost as part of its employee benefits expense included in program expenses the accompanying statements of activities.

Weighted average assumptions used to determine benefit obligations for 2020 was 1.32%. The weighted average assumption used to determine net benefits cost was 2.64% for 2020. During the years ended June 30, 2021 and 2020, employer contributions and benefits paid amounted to \$57,872 and \$53,420, respectively.

Defined Contribution Plan

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 \$102,825 and \$114,674 for the years ended June 30, 2021 and 2020, respectively.

Honolulu Museum of Art

Notes to Financial Statements
June 30, 2021 and 2020

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, 2021 and 2020:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
2021:			
Donor-restricted funds	\$ -	\$ 86,273,027	\$ 86,273,027
Board-designated funds	<u>888,790</u>	<u>-</u>	<u>888,790</u>
	<u>\$ 888,790</u>	<u>\$ 86,273,027</u>	<u>\$ 87,161,817</u>
2020:			
Donor-restricted funds	\$ -	\$ 73,253,803	\$ 73,253,803
Board-designated funds	<u>800,911</u>	<u>-</u>	<u>800,911</u>
	<u>\$ 800,911</u>	<u>\$ 73,253,803</u>	<u>\$ 74,054,714</u>

Honolulu Museum of Art

Notes to Financial Statements
June 30, 2021 and 2020

12. Endowments (continued)

For the years ended June 30, 2021 and 2020, the changes in donor-restricted endowment net assets are as follows:

	<u>Without</u> <u>Donor Restrictions</u>	<u>With</u> <u>Donor Restrictions</u>	<u>Total</u>
Endowment net assets, June 30, 2019	\$ 841,986	\$ 70,036,941	\$ 70,878,927
Investment return, net	(4,453)	(279,249)	(283,702)
Change in value of beneficial interest in perpetual trusts	-	(348,511)	(348,511)
Gifts and bequests	-	6,120,346	6,120,346
Appropriation of endowment assets pursuant to spending-rate policy	<u>(36,622)</u>	<u>(2,275,724)</u>	<u>(2,312,346)</u>
Endowment net assets, June 30, 2020	\$ 800,911	\$ 73,253,803	\$ 74,054,714
Investment return, net	145,610	10,523,211	10,668,821
Change in value of beneficial interest in perpetual trusts	-	3,972,205	3,972,205
Gifts and bequests	-	2,581,035	2,581,035
Appropriation of endowment assets pursuant to spending-rate policy	<u>(57,731)</u>	<u>(4,057,227)</u>	<u>(4,114,958)</u>
Endowment net assets, June 30, 2021	<u>\$ 888,790</u>	<u>\$ 86,273,027</u>	<u>\$ 87,161,817</u>

Honolulu Museum of Art

Notes to Financial Statements
June 30, 2021 and 2020

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, 2021 and 2020

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 \$11,243,253 and \$11,434,381 as of June 30, 2021 and 2020, respectively. These funds had an original gift value of \$55,497,695 and \$52,170,912 and a fair value of \$44,254,442 and \$40,736,531 as of June 30, 2021 and 2020, 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, 2021 and 2020

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>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 4,341,992	\$ 3,962,784
Contributions receivable	369,209	1,022,493
Operating investments	<u>1,020,707</u>	<u>2,000,330</u>
	<u>\$ 5,731,908</u>	<u>\$ 6,985,607</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. Additionally, the Museum's quasi-endowment is valued at \$888,790 and \$800,911 as of June 30, 2021 and 2020, 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).

Honolulu Museum of Art

Notes to Financial Statements
June 30, 2021 and 2020

13. Liquidity and Availability (continued)

In July 2021, the Museum refinanced the \$4 million term loan and extended the maturity date to November 2023.

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.

The carrying amounts of cash, cash equivalents, accounts payable, accrued expenses and other, and deferred revenue approximate fair value because of the short maturity of these instruments.

Honolulu Museum of Art

Notes to Financial Statements
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14. Fair Value Measurements (continued)

b. Fair Value of Financial Instruments (continued)

Contributed rent was valued using a risk-free rate as of the date of lease to calculate present value. Management believes this approximates fair value.

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. As described in Note 1.n., 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.

The carrying amount of debt at June 30, 2021 approximates fair value as the interest rate is commensurate with interest rates currently offered by local lending institutions for loans with similar terms to companies with comparable credit risk.

Honolulu Museum of Art

Notes to Financial Statements
June 30, 2021 and 2020

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, 2021 and 2020:

	June 30, 2021	Fair Value Measurements at Reporting Date Using:		
		Level 1	Level 2	Level 3
Long-term investments:				
Cash	\$ 2,414,460	\$ 2,414,460	\$ -	\$ -
U.S. treasury obligations	5,974,415	-	5,974,415	-
U.S. government agency bonds	801,036	-	801,036	-
Municipal obligations	46,402	-	46,402	-
Corporate stocks	23,219,640	23,219,640	-	-
Corporate bonds	3,632,254	-	3,632,254	-
ETF and closed end funds	5,098,266	4,629,160	469,106	-
Mutual funds:				
Fixed income	4,043,521	4,043,521	-	-
Domestic equities	8,196,786	6,653,025	1,543,761	-
Opportunistic and other	3,014,264	3,014,264	-	-
	<u>56,441,044</u>	<u>43,974,070</u>	<u>12,466,974</u>	<u>-</u>
Alternative investments measured at net asset value:				
Mutual funds--				
Foreign equities	<u>5,283,029</u>			
Hedge funds:				
Real estate assets	1,460,056			
Domestic equities	3,047,387			
Foreign equities	1,692,218			
Emerging markets equities	<u>1,096,831</u>			
Total hedge funds	<u>7,296,492</u>			
Fund of funds:				
Marketable alternative assets	3,021,349			
Opportunistic and other	<u>22,287</u>			
Total funds of funds	<u>3,043,636</u>			
Total alternative investments	<u>15,623,157</u>			
Total long-term investments	72,064,201			
Beneficial interest in perpetual trusts	<u>21,266,054</u>	<u>-</u>	<u>-</u>	<u>21,266,054</u>
Total assets	<u>\$ 93,330,255</u>	<u>\$ 43,974,070</u>	<u>\$ 12,466,974</u>	<u>\$ 21,266,054</u>
Liabilities under split-interest agreements	<u>\$ 1,475,854</u>	<u>\$ -</u>	<u>\$ 1,475,854</u>	<u>\$ -</u>

Honolulu Museum of Art

Notes to Financial Statements
June 30, 2021 and 2020

14. Fair Value Measurements (continued)

b. Fair Value of Financial Instruments (continued)

	June 30, 2020	Fair Value Measurements at Reporting Date Using:		
		Level 1	Level 2	Level 3
Long-term investments:				
Cash	\$ 3,150,501	\$ 3,150,501	\$ -	\$ -
Money market fund	27,208	27,208	-	-
U.S. treasury obligations	6,380,501	-	6,380,501	-
U.S. government agency bonds	733,197	-	733,197	-
Municipal obligations	47,287	-	47,287	-
Corporate stocks	13,979,727	13,979,727	-	-
Corporate bonds	3,871,302	-	3,871,302	-
ETF and closed end funds	4,262,856	3,809,777	453,079	-
Mutual funds:				
Fixed income	4,364,734	4,364,734	-	-
Domestic equities	5,907,903	4,811,077	1,096,826	-
Opportunistic and other	3,900,559	3,900,559	-	-
	<u>46,625,775</u>	<u>34,043,583</u>	<u>12,582,192</u>	<u>-</u>
Alternative investments measured at net asset value:				
Mutual funds:				
Foreign equities	4,100,282			
Master limited partnership	542,394			
Total mutual funds	<u>4,642,676</u>			
Hedge funds:				
Real estate assets	1,055,165			
Domestic equities	3,178,320			
Foreign equities	1,703,074			
Emerging markets equities	746,021			
Total hedge funds	<u>6,682,580</u>			
Fund of funds:				
Marketable alternative assets	2,366,060			
Opportunistic and other	7,107			
Total funds of funds	<u>2,373,167</u>			
Total alternative investments	<u>13,698,423</u>			
Total long-term investments	60,324,198			
Beneficial interest in perpetual trusts	17,293,849	-	-	17,293,849
Total assets	<u>\$ 77,618,047</u>	<u>\$ 34,043,583</u>	<u>\$ 12,582,192</u>	<u>\$ 17,293,849</u>
Liabilities under split-interest agreements	<u>\$ 1,591,443</u>	<u>\$ -</u>	<u>\$ 1,591,443</u>	<u>\$ -</u>

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Notes to Financial Statements
June 30, 2021 and 2020

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>2021</u>	<u>2020</u>
Beginning Balance	\$ 17,293,849	\$ 17,642,360
Change in value of beneficial interest of perpetual trust	<u>3,972,205</u>	<u>(348,511)</u>
	<u>\$ 21,266,054</u>	<u>\$ 17,293,849</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, 2021 and 2020:

- 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 monthly to quarterly with redemption notice periods ranging from 1 to 65 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 March 16, 2022, the date at which the financial statements were available to be issued, and determined there were no other items to disclose.

Honolulu Museum of Art

Notes to Financial Statements
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16. Restatement

In 2021, the Museum determined that certain donor restricted net assets should have been released from restriction in fiscal years prior to June 30, 2018 as the donor restrictions had been met in previous fiscal years. As a result, donor restricted net assets as of July 1, 2019 were adjusted from amounts previously reported. The result of the adjustment had the following impact on the June 30, 2020 financial statements:

	Net Assets		
	Without Donor Restrictions	With Donor Restrictions	Total
As previously reported, July 1, 2019	\$ 19,278,399	\$ 94,838,357	\$ 114,116,756
Adjustment to release donor restricted net assets from restrictions	<u>3,611,694</u>	<u>(3,611,694)</u>	<u>-</u>
Balance as restated, July 1, 2019	<u>\$ 22,890,093</u>	<u>\$ 91,226,663</u>	<u>\$ 114,116,756</u>