

**Honolulu Academy of Arts
dba Honolulu Museum of Art**

Financial Statements
June 30, 2020 and 2019
Together with Independent Auditor's Report



A Hawaii Limited Liability Partnership

Independent Auditor's Report

To the Board of Trustees of
Honolulu Academy of Arts, dba Honolulu Museum of Art:

Report on the Financial Statements

We have audited the accompanying financial statements of Honolulu Academy of Arts, dba Honolulu Museum of Art (the Museum), which comprise the statements of financial position as of June 30, 2020 and 2019, 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 Academy of Arts, dba Honolulu Museum of Art, as of June 30, 2020 and 2019, 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.

KMH LLP

KMH LLP

Honolulu, Hawaii
March 29, 2021

**Honolulu Academy of Arts
dba Honolulu Museum of Art**

Statements of Financial Position
June 30, 2020 and 2019

	<u>Assets</u>	
	2020	2019
Cash and Cash Equivalents	\$ 10,248,559	\$ 6,404,621
Inventories	319,986	301,464
Contributions Receivable	1,112,493	433,750
Prepaid Expenses and Other	362,844	320,086
Contributed Rent	929,742	1,088,022
Long-term Contributions Receivable, net	1,543,654	2,145,100
Land, Buildings, and Equipment held for sale, net	7,372,011	988,169
Land, Buildings, and Equipment, net	24,637,652	31,635,902
Long-term Investments	60,324,198	63,210,229
Beneficial Interest in Perpetual Trusts	17,293,849	17,642,360
Total assets	<u>\$ 124,144,988</u>	<u>\$ 124,169,703</u>
<u>Liabilities and Net Assets</u>		
Liabilities:		
Accounts payable, accrued expenses, and other	\$ 1,121,509	\$ 911,482
Liabilities under split-interest agreements	1,591,443	1,717,582
Loans payable	8,516,700	7,000,000
Deferred revenue	28,387	35,437
Post-retirement obligation	378,731	388,446
Total liabilities	<u>11,636,770</u>	<u>10,052,947</u>
Commitments and Contingencies		
Net Assets:		
Without donor restrictions:		
Undesignated	13,170,479	18,436,413
Board designated	800,911	841,986
	<u>13,971,390</u>	<u>19,278,399</u>
With donor restrictions	98,536,828	94,838,357
Total net assets	<u>112,508,218</u>	<u>114,116,756</u>
Total liabilities and net assets	<u>\$ 124,144,988</u>	<u>\$ 124,169,703</u>

See accompanying notes to financial statements.

Honolulu Academy of Arts
dba Honolulu Museum of Art

Statement of Activities
For the Year Ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
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	<u>19,278,399</u>	<u>94,838,357</u>	<u>114,116,756</u>
Net Assets at End of Year	<u>\$ 13,971,390</u>	<u>\$ 98,536,828</u>	<u>\$ 112,508,218</u>

See accompanying notes to financial statements.

Honolulu Academy of Arts
dba Honolulu Museum of Art

Statement of Activities
For the Year Ended June 30, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues, Gains, and Other Support:			
Gifts and bequests	\$ 4,469,417	\$ 5,640,121	\$ 10,109,538
Net realized and unrealized gain on investments	(684,433)	1,901,674	1,217,241
Loss on disposal of land, buildings, and equipment	(1,700)	-	(1,700)
Change in value of split-interest agreements, net	(154,536)	6	(154,530)
Change in value of beneficial interest in perpetual trusts	-	(72,106)	(72,106)
Dividends and interest, net of investment fees and expenses of \$512,495	164,803	872,311	1,037,114
Museum shops and cafes	1,652,415	-	1,652,415
Income from Trusts:			
R. Allerton Acquisition Fund and R. Allerton Trust	699,197	55,654	754,851
Others	323,217	27,978	351,195
Membership dues	960,205	-	960,205
Tuition and fees	1,304,749	-	1,304,749
Admissions	587,604	-	587,604
Special events and other, net	1,114,859	-	1,114,859
Net assets released from restrictions	4,220,002	(4,220,002)	-
Total revenues, gains, and other support	<u>14,655,799</u>	<u>4,205,636</u>	<u>18,861,435</u>
Expenses:			
Program services:			
Education	3,954,347	-	3,954,347
Special exhibitions	2,491,398	-	2,491,398
Curatorial and conservation	1,739,624	-	1,739,624
Museum shops and cafes	2,041,161	-	2,041,161
Art acquisitions	41,596	-	41,596
Total program services	<u>10,268,126</u>	<u>-</u>	<u>10,268,126</u>
Supporting services:			
Management and general	3,066,659	-	3,066,659
Fundraising and development	1,016,672	-	1,016,672
Total supporting services	<u>4,083,331</u>	<u>-</u>	<u>4,083,331</u>
Total expenses	<u>14,351,457</u>	<u>-</u>	<u>14,351,457</u>
Change in net assets	304,342	4,205,636	4,509,978
Net Assets at Beginning of Year	<u>18,974,057</u>	<u>90,632,721</u>	<u>109,606,778</u>
Net Assets at End of Year	<u>\$ 19,278,399</u>	<u>\$ 94,838,357</u>	<u>\$ 114,116,756</u>

See accompanying notes to financial statements.

**Honolulu Academy of Arts
dba 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 Academy of Arts
dba Honolulu Museum of Art**

Statement of Functional Expenses
For the Year Ended June 30, 2019

	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	\$ 1,920,763	\$ 893,628	\$ 1,019,909	\$ 862,125	\$ -	\$ 4,696,425	\$ 1,334,293	\$ 539,478	\$ 1,873,771	\$ 6,570,196
Employee benefits	402,593	241,136	237,803	205,330	-	1,086,862	336,418	118,630	455,048	1,541,910
Utilities	233,878	279,830	55,053	91,161	-	659,922	209,978	2,939	212,917	872,839
Professional and other services	318,276	105,721	16,107	61,744	-	501,848	469,084	51,386	520,470	1,022,318
Depreciation and amortization	307,338	430,141	159,090	90,854	-	987,423	35,663	20,109	55,772	1,043,195
Purchases for resale	-	-	-	606,342	-	606,342	-	-	-	606,342
Repairs and maintenance	161,576	149,913	31,985	69,324	-	412,798	256,668	1,988	258,656	671,454
Rental	227,169	13,076	18,303	132	-	258,680	56,156	182	56,338	315,018
Supplies	148,755	49,076	16,573	32,722	-	247,126	63,661	19,599	83,260	330,386
Publicity and printing	43,560	19,955	38,091	364	-	101,970	2,200	151,717	153,917	255,887
Insurance	29,584	60,984	75,148	13,307	-	179,023	5,755	2,459	8,214	187,237
Art acquisitions	-	-	-	-	41,596	41,596	-	-	-	41,596
Hospitality	23,805	3,257	841	877	-	28,780	9,563	8,213	17,776	46,556
Other	15,366	23,289	10,346	54,759	-	103,760	23,377	25,337	48,714	152,474
Postage and freight	9,890	80,431	14,755	2,190	-	107,266	4,393	14,971	19,364	126,630
Interest	16,324	44,373	7,480	13,198	-	81,375	168,182	15,757	183,939	265,314
Education and theatre	66,428	-	-	-	-	66,428	-	-	-	66,428
Retirement plans	-	-	-	-	-	-	50,511	-	50,511	50,511
Security	21,074	23,673	4,399	6,866	-	56,012	18,179	95	18,274	74,286
Exhibitions	-	1,618	-	-	-	1,618	-	-	-	1,618
Travel	45,105	17,057	10,539	962	-	73,663	2,930	64	2,994	76,657
Conservation	-	11,137	17,120	-	-	28,257	-	-	-	28,257
Books	1,140	857	311	366	-	2,674	1,348	326	1,674	4,348
Interdepartmental	(38,277)	42,246	5,771	(71,462)	-	(61,722)	18,300	43,422	61,722	-
	<u>\$ 3,954,347</u>	<u>\$ 2,491,398</u>	<u>\$ 1,739,624</u>	<u>\$ 2,041,161</u>	<u>\$ 41,596</u>	<u>\$ 10,268,126</u>	<u>\$ 3,066,659</u>	<u>\$ 1,016,672</u>	<u>\$ 4,083,331</u>	<u>\$ 14,351,457</u>

See accompanying notes to financial statements.

**Honolulu Academy of Arts
dba Honolulu Museum of Art**

Statements of Cash Flows
For the Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash Flows from Operating Activities:		
Change in net assets	\$ (1,608,538)	\$ 4,509,978
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,011,783	1,043,195
Amortization of contributed rent	158,280	162,154
Net realized and unrealized loss (gain) on investments	1,415,465	(1,217,241)
Loss on disposal of land, buildings, and equipment	-	1,700
Change in value of beneficial interest in perpetual trusts	348,511	72,106
Contributions restricted for long-term investment	(107,003)	(111,800)
Changes in operating assets and liabilities:		
Increase in inventories	(18,522)	(28,292)
Increase in contributions receivable	(77,297)	(2,142,971)
Increase in prepaid expenses and other	(42,758)	(72,550)
Increase (decrease) in accounts payable, accrued expenses, and other	210,027	(127,461)
Decrease in liabilities under split-interest agreements	(126,139)	(90,207)
Decrease in deferred revenue	(7,050)	(127,651)
Decrease in post-retirement obligations	(9,715)	(2,909)
Net cash provided by operating activities	<u>1,147,044</u>	<u>1,868,051</u>
Cash Flows from Investing Activities:		
Proceeds from sale of investments	20,378,903	46,197,199
Purchase of investments	(18,908,337)	(44,585,242)
Purchases of land, buildings and equipment	(397,375)	(384,831)
Net cash provided by investing activities	<u>1,073,191</u>	<u>1,227,126</u>

(continued)

See accompanying notes to financial statements.

**Honolulu Academy of Arts
dba Honolulu Museum of Art**

Statements of Cash Flows
For the Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash Flows from Financing Activities:		
Proceeds from loans payable	\$ 1,516,700	\$ -
Proceeds from contributions restricted for:		
Investment in endowment	105,703	93,510
Investment in land, buildings, and equipment	<u>1,300</u>	<u>18,290</u>
Net cash provided by financing activities	<u>1,623,703</u>	<u>111,800</u>
Net increase in cash and cash equivalents	3,843,938	3,206,977
Cash and Cash Equivalents, beginning of year	<u>6,404,621</u>	<u>3,197,644</u>
Cash and Cash Equivalents, end of year	<u><u>\$ 10,248,559</u></u>	<u><u>\$ 6,404,621</u></u>
Supplemental Disclosure of Cash Flow Information --		
Interest Paid	<u><u>\$ 222,525</u></u>	<u><u>\$ 221,168</u></u>
Supplemental Disclosure of Noncash Activities --		
Purchases of Land, Buildings and Equipment Included in Liabilities	<u><u>\$ -</u></u>	<u><u>\$ 42,000</u></u>

See accompanying notes to financial statements.

Honolulu Academy of Arts dba Honolulu Museum of Art

Notes to Financial Statements
June 30, 2020 and 2019

1. Summary of Operations and Significant Accounting Policies

a. General

The Honolulu Academy of Arts, dba 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.

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.

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.

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.

Honolulu Academy of Arts dba Honolulu Museum of Art

Notes to Financial Statements
June 30, 2020 and 2019

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

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 13.

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 Academy of Arts dba Honolulu Museum of Art

Notes to Financial Statements
June 30, 2020 and 2019

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, 2020 and 2019, land, buildings, and equipment held for sale amounted to \$7,372,011 and \$988,169, respectively.

g. 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 met or in the period received if there is only a remote likelihood that those conditions will not be met.

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.

Honolulu Academy of Arts dba Honolulu Museum of Art

Notes to Financial Statements
June 30, 2020 and 2019

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

h. 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 \$2,119,826 and \$2,367,640 at June 30, 2020 and 2019, 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, 2020 and 2019, there was no contribution revenue recognized under such agreements.

For the years ended June 30, 2020 and 2019, decreases in the value of liabilities under split-interest agreements related to pooled income funds, charitable remainder trusts, and charitable gift annuities amounted to \$126,139 and \$90,207, and are included in change in value of split-interest agreements in the accompanying statements of activities.

i. 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 Museums interest in the underlying fair value of the trust assets.

Honolulu Academy of Arts dba Honolulu Museum of Art

Notes to Financial Statements
June 30, 2020 and 2019

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

i. Beneficial Interest in Perpetual Trusts (continued)

For the years ended June 30, 2020 and 2019, income generated from the Museum's interests in beneficial interest in perpetual trusts amounted to \$1,123,605 and \$1,106,046, respectively, and are recorded as income from trusts in the accompanying statements of activities. For the years ended June 30, 2020 and 2019, changes in the value of split-interest agreements associated with beneficial interests in perpetual trusts amounted to \$(348,511) and \$(72,106), 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 2020 and 2019.

j. 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 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.

k. 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.

l. 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 Academy of Arts dba Honolulu Museum of Art

Notes to Financial Statements
June 30, 2020 and 2019

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

l. 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, 2020 and 2019. Accordingly, there are no interest or penalties recognized during the years ended June 30, 2020 and 2019. Tax years from 2017 are open for federal income tax examination.

m. 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.

n. Fair Value Measurements

The Museum applies the provisions of Accounting Standards Codification (ASC) Topic 820 to nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring 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 and beneficial interest in perpetual trusts from classification in the fair value hierarchy and the related disclosures of changes in fair value for level 3 investments.

Honolulu Academy of Arts dba Honolulu Museum of Art

Notes to Financial Statements
June 30, 2020 and 2019

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

o. 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.

p. 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.

q. 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. 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). While it is unknown how long these conditions will last and what the complete financial effect will be to the Museum, 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 Academy of Arts dba Honolulu Museum of Art

Notes to Financial Statements
June 30, 2020 and 2019

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

r. Recently Issued Accounting Standards

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*, which sets forth a new revenue recognition model, codified in FASB ASC Topic 606-10. In August 2015, the FASB issued ASU No. 2015-14, which deferred the effective date of the amendments in ASU 2014-09 to fiscal years beginning after December 15, 2018. The amendments in ASU 2014-09 require 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. In June 2020, the FASB issued ASU 2020-05, which delayed the effective date of the guidance to fiscal years beginning after December 15, 2019. The Museum is currently assessing the impact of ASU 2014-09 on its financial position and results of operations and has not determined if the adoption will have a material effect on its financial statements.

In February 2016, the FASB issued 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 Academy of Arts dba Honolulu Museum of Art

Notes to Financial Statements
June 30, 2020 and 2019

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

r. Recently Issued Accounting Standards (continued)

In March 2019, the FASB issued ASU No. 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. The Museum is currently assessing the impact of ASU 2019-03 on its financial position and results of operations and has not determined if the adoption will have a material effect on its financial statements.

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.

s. Recently Adopted Accounting Standard

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The ASU clarifies and improves current guidance about whether a transfer of assets, or the reduction, settlement, or cancellation of liabilities, is a contribution or an exchange transaction. It further provides criteria for determining whether the resource provider is receiving commensurate value in return for the resources transferred which, depending on the outcome, determines whether the organization follows contribution guidance or exchange transaction guidance in the revenue recognition and other applicable standards. The Museum adopted this ASU effective July 1, 2019. There was no significant impact to the Museum’s financial statements as a result of adopting this ASU.

Honolulu Academy of Arts dba Honolulu Museum of Art

Notes to Financial Statements
June 30, 2020 and 2019

2. Contributions Receivable

The amount of contributions receivable at June 30, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Receivable in less than one year	\$ 1,112,493	\$ 433,750
Receivable in one to five years	1,675,000	2,276,446
Less: present value discount	<u>(131,346)</u>	<u>(131,346)</u>
	<u>1,543,654</u>	<u>2,145,100</u>
Total Receivable	<u>\$ 2,656,147</u>	<u>\$ 2,578,850</u>

Contributions receivable totaling \$2,656,147 and \$2,578,850 included in assets at June 30, 2020 and 2019, 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.

**Honolulu Academy of Arts
dba Honolulu Museum of Art**

Notes to Financial Statements
June 30, 2020 and 2019

3. Contributed Rent (continued)

At June 30, 2020 and 2019, contributed rent amounted to \$929,742 and \$1,088,022, respectively, and the related amortization for the years ended June 30, 2020 and 2019 amounted to \$158,280 and \$162,154, 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%.

4. Land, Buildings, and Equipment

A summary of land, buildings, and equipment at June 30, 2020 and 2019 is as follows:

	Depreciable lives	Cost	
		2020	2019
Depreciable assets:			
Land improvements	20 years	\$ 380,354	\$ 376,619
Buildings	20–50 years	35,231,937	37,930,277
Equipment	5–10 years	6,393,486	6,082,412
		42,005,777	44,389,308
Less accumulated depreciation		(22,056,077)	(21,545,791)
		19,949,700	22,843,517
Land		4,211,552	8,398,552
Construction in progress		476,400	393,833
		<u>\$ 24,637,652</u>	<u>\$ 31,635,902</u>

Depreciation and amortization expense for the years ended June 30, 2020 and 2019 was \$1,011,783 and \$1,043,195, respectively.

Honolulu Academy of Arts dba Honolulu Museum of Art

Notes to Financial Statements
June 30, 2020 and 2019

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 \$23,057 and \$41,596 for the years ended June 30, 2020 and 2019, 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, 2020 and 2019 was nil. Unexpended gifts are included in net assets with donor restrictions at June 30, 2020 and 2019.

6. Loans Payable

Loans payable at June 30, 2020 and 2019 consist of the following:

	<u>2020</u>	<u>2019</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	3,000,000	3,000,000
Borrowings under a \$1,516,700 term loan with a bank, interest at 1%, deferred interest-only payments principal due upon maturity in May 2022; unsecured	<u>1,516,700</u>	<u>-</u>
Total loans payable	<u>\$ 8,516,700</u>	<u>\$ 7,000,000</u>

Honolulu Academy of Arts dba Honolulu Museum of Art

Notes to Financial Statements
June 30, 2020 and 2019

6. Loans Payable (continued)

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 in the amount of \$1,516,700, pursuant to the Paycheck Protection Program (PPP) under the CARES Act. The loan and accrued interest may be forgiven as long as the Museum uses the loan proceeds for eligible purposes, including payroll costs, interest on a covered mortgage obligation, rent obligation or covered utility payment, during the 24 week period beginning on the date of the first disbursement of the loan. The Museum believes it has used the proceeds for the purposes consistent with the PPP and that its use of the loan proceeds will meet the conditions for forgiveness of the loan. As of June 30, 2020, the Museum did not yet apply for forgiveness of the loan and have recorded the proceeds as loans payable in the accompanying statement of financial position.

Interest expense on loans payable totaled \$222,977 and \$221,168 for the years ended June 30, 2020 and 2019, respectively.

7. 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, 2020 and 2019. There were no outstanding balances on the line of credit at June 30, 2020 and 2019. 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.

Honolulu Academy of Arts dba Honolulu Museum of Art

Notes to Financial Statements
June 30, 2020 and 2019

8. 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. 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, 2020 and 2019 was \$320,542 and \$315,018, respectively.

Future minimum lease commitments under non-cancelable operating leases as of June 30, 2020 are as follows:

Year ending June 30:	
2021	\$ 480
2022	480
2023	480
2024	480
2025	480
Thereafter	<u>27,080</u>
	<u>\$ 29,480</u>

Honolulu Academy of Arts dba Honolulu Museum of Art

Notes to Financial Statements
June 30, 2020 and 2019

9. Net Assets with Donor Restrictions

Net assets with donor restrictions at June 30, 2020 and 2019 are available for the following purposes:

	<u>2020</u>	<u>2019</u>
Subject to expenditure for specified purpose:		
Named galleries and other purposes	\$ 27,142,671	\$ 19,697,255
Art acquisitions	1,758,128	1,844,741
Curatorial and conservation	347,014	810,569
Education	2,371,289	3,253,795
Special exhibitions	841,051	1,159,579
Spalding House	<u>257,630</u>	<u>269,239</u>
	<u>32,717,783</u>	<u>27,035,178</u>
Endowments to be held in perpetuity:		
Museum operations	34,932,134	36,265,190
Art acquisitions	5,217,191	5,328,443
Curatorial and conservation	4,248,746	4,317,579
Education	3,011,325	3,074,726
Special exhibitions	<u>1,115,800</u>	<u>1,174,881</u>
	<u>48,525,196</u>	<u>50,160,819</u>
Not subject to spending policy or appropriation --		
Beneficial interests in perpetual trusts	<u>17,293,849</u>	<u>17,642,360</u>
Total net assets with donor restrictions	<u>\$ 98,536,828</u>	<u>\$ 94,838,357</u>

Net assets in the amount of \$3,364,757 and \$4,220,002 for the years ended June 30, 2020 and 2019, 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>2020</u>	<u>2019</u>
Museum operations and other	\$ 1,272,940	\$ 2,525,442
Art acquisitions	223,099	272,662
Curatorial and conservation	257,496	450,056
Education	1,131,089	580,088
Special exhibitions	<u>480,133</u>	<u>391,754</u>
	<u>\$ 3,364,757</u>	<u>\$ 4,220,002</u>

Honolulu Academy of Arts dba Honolulu Museum of Art

Notes to Financial Statements
June 30, 2020 and 2019

10. Retirement Benefit Plans

Supplemental Retirement Plan

The Museum sponsors a noncontributory defined benefit supplemental retirement plan (supplemental retirement plan) that provides retirement benefits to select full-time employees. At June 30, 2020 and 2019, the supplemental retirement plan had no plan assets. Accordingly, the supplemental retirement plan's benefit obligation and funded status amounted to \$(378,731) and \$(388,446) at June 30, 2020 and 2019, respectively.

Amounts recognized in change in net assets consist of the following:

	<u>2020</u>	<u>2019</u>
Net periodic benefit cost	\$ (9,554)	\$ (13,026)
Net loss	<u>(34,151)</u>	<u>(37,485)</u>
	<u>\$ (43,705)</u>	<u>\$ (50,511)</u>

The Museum recognizes 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 and 2019 were 1.32% and 2.64%, respectively. Weighted average assumptions used to determine net benefits cost were 2.64% and 3.57% for 2020 and 2019, respectively. During the years ended June 30, 2020 and 2019, employer contributions and benefits paid amounted to \$53,420 in each year.

The Museum expects to contribute \$53,420 to its supplemental retirement plan in fiscal year 2020. Future benefits expected to be paid for the supplemental retirement plan are as follows:

2021	\$ 53,420
2022	48,000
2023	44,000
2024	40,000
2025	36,000
2026-2029	<u>124,000</u>
Total	<u>\$ 345,420</u>

The expected benefits are based on the same assumptions used to measure the Museum's benefit obligation at June 30 and include estimated future employee service.

**Honolulu Academy of Arts
dba Honolulu Museum of Art**

Notes to Financial Statements
June 30, 2020 and 2019

10. Retirement Benefit Plans (continued)

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 \$114,674 and \$129,856 for the years ended June 30, 2020 and 2019, respectively.

11. 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, 2020 and 2019:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
2020:			
Donor-restricted funds	\$ -	\$ 67,240,181	\$ 67,240,181
Board-designated funds	<u>800,911</u>	<u>-</u>	<u>800,911</u>
	<u>\$ 800,911</u>	<u>\$ 67,240,181</u>	<u>\$ 68,041,092</u>
2019:			
Donor-restricted funds	\$ -	\$ 70,036,941	\$ 70,036,941
Board-designated funds	<u>841,986</u>	<u>-</u>	<u>841,986</u>
	<u>\$ 841,986</u>	<u>\$ 70,036,941</u>	<u>\$ 70,878,927</u>

Honolulu Academy of Arts dba Honolulu Museum of Art

Notes to Financial Statements
June 30, 2020 and 2019

11. Endowments (continued)

For the years ended June 30, 2020 and 2019, the changes in donor-restricted endowment net assets are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, June 30, 2018	\$ 628,366	\$ 70,642,903	\$ 71,271,269
Investment return, net	28,797	1,846,476	1,875,273
Change in value of beneficial interest in perpetual trusts	-	(72,106)	(72,106)
Gifts and bequests	213,000	93,510	306,510
Appropriation of endowment assets pursuant to spending-rate policy	<u>(28,177)</u>	<u>(2,473,842)</u>	<u>(2,502,019)</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	-	106,724	106,724
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	<u>\$ 800,911</u>	<u>\$ 67,240,181</u>	<u>\$ 68,041,092</u>

Honolulu Academy of Arts dba Honolulu Museum of Art

Notes to Financial Statements
June 30, 2020 and 2019

11. 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 Academy of Arts dba Honolulu Museum of Art

Notes to Financial Statements
June 30, 2020 and 2019

11. 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 \$11,434,381 and \$10,164,692 as of June 30, 2020 and 2019, respectively. These funds had an original gift value of \$52,170,912 and \$43,515,380 and a fair value of \$40,736,531 and \$33,350,688 as of June 30, 2020 and 2019, 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 Academy of Arts dba Honolulu Museum of Art

Notes to Financial Statements
June 30, 2020 and 2019

11. 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.

12. 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>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 3,962,784	\$ 5,090,828
Contributions receivable	1,022,493	433,750
Operating investments	<u>2,000,330</u>	<u>140,084</u>
	<u>\$ 6,985,607</u>	<u>\$ 5,664,662</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 11).

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 \$800,911 and \$841,986 as of June 30, 2020 and 2019, 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 13).

Honolulu Academy of Arts dba Honolulu Museum of Art

Notes to Financial Statements
June 30, 2020 and 2019

12. Liquidity and Availability (continued)

The Museum has applied for an extension of the \$4 million term loan, which matures in November 2021. As of March 29, 2021, the Museum is in the process of working with its lender to extend the maturity date.

13. 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 Academy of Arts dba Honolulu Museum of Art

Notes to Financial Statements
June 30, 2020 and 2019

13. 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, 2020 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 Academy of Arts dba Honolulu Museum of Art

Notes to Financial Statements
June 30, 2020 and 2019

13. 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, 2020 and 2019:

	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>

Honolulu Academy of Arts dba Honolulu Museum of Art

Notes to Financial Statements
June 30, 2020 and 2019

13. Fair Value Measurements (continued)

b. Fair Value of Financial Instruments (continued)

	June 30, 2019	Fair Value Measurements at Reporting Date Using:		
		Level 1	Level 2	Level 3
Long-term investments:				
Cash	\$ 1,973,840	\$ 1,973,840	\$ -	\$ -
Money market fund	832,868	832,868	-	-
U.S. treasury obligations	6,143,095	-	6,143,095	-
U.S. government agency bonds	612,993	-	612,993	-
Municipal obligations	63,387	-	63,387	-
Corporate stocks	13,619,361	13,619,361	-	-
Corporate bonds	3,635,147	-	3,635,147	-
ETF and closed end funds	4,863,109	4,216,081	647,028	-
Mutual funds:				
Fixed income	4,724,315	4,724,315	-	-
Domestic equities	5,935,847	4,716,885	1,218,962	-
Opportunistic and other	5,166,705	5,166,705	-	-
	<u>47,570,667</u>	<u>35,250,055</u>	<u>12,320,612</u>	<u>-</u>
Alternative investments measured at net asset value:				
Mutual funds:				
Foreign equities	5,046,088			
Master limited partnership	815,500			
Total mutual funds	<u>5,861,588</u>			
Hedge funds:				
Real estate assets	1,189,838			
Domestic equities	3,451,462			
Foreign equities	2,205,740			
Emerging markets equities	771,352			
Total hedge funds	<u>7,618,392</u>			
Fund of funds:				
Marketable alternative assets	2,155,552			
Opportunistic and other	4,030			
Total funds of funds	<u>2,159,582</u>			
Total alternative investments	<u>15,639,562</u>			
Total long-term investments	63,210,229			
Beneficial interest in perpetual trusts	17,642,360	-	-	17,642,360
Total assets	<u>\$ 80,852,589</u>	<u>\$ 35,250,055</u>	<u>\$ 12,320,612</u>	<u>\$ 17,642,360</u>
Liabilities under split-interest agreements	\$ 1,717,582	\$ -	\$ 1,717,582	\$ -

Honolulu Academy of Arts dba Honolulu Museum of Art

Notes to Financial Statements
June 30, 2020 and 2019

13. 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>2020</u>	<u>2019</u>
Beginning Balance	\$ 17,642,360	\$ 17,714,466
Change in value of beneficial interest of perpetual trust	<u>(348,511)</u>	<u>(72,106)</u>
	<u>\$ 17,293,849</u>	<u>\$ 17,642,360</u>

There were no liabilities measured at fair value on a recurring basis for the years ended June 30, 2020 and 2019.

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, 2020 and 2019:

- 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.

14. Subsequent Events

The Museum has evaluated subsequent events from the balance sheet date through March 29, 2021, the date at which the financial statements were available to be issued, and determined there were no other items to disclose.