

HUI O WA'A KAULUA
(A Hawai'i Nonprofit Corporation)

AUDITED FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED JUNE 30, 2021

HUI O WA'A KAULUA

Table of Contents

Independent Auditor's Report	1
Financial Statements:	
Statement of Financial Position	3
Statement of Activities and Change in Net Assets	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to the Financial Statements	7

INDEPENDENT AUDITOR'S REPORT

To Management and the Board of Directors of
Hui O Wa'a Kaulua
Lahaina, Hawaii 96761

We have audited the accompanying financial statements of Hui O Wa'a Kaulua (a nonprofit organization) which comprise the statement of financial position as of June 30, 2021, and the related statements of activities and change in net assets, functional expenses and cash flows for the year 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 the modified cash basis of accounting described in Note 2; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audit 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 Hui O Wa'a Kaulua as of June 30, 2021, and the change in net assets and its cash flows for the year then ended in accordance with the modified cash basis of accounting described in Note 2.

Basis of Accounting

We draw attention to Note 2 of the financial statements, which describes the basis of accounting. These financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Carbonaro CPAs & Management Group

Wailuku, Hawaii
May 2, 2022

HUI O WA' A KAULUA

Statement of Financial Position As of June 30, 2021

ASSETS

CURRENT ASSETS	
Cash and Cash Equivalents (Note 2)	\$ 9,960
Net Current Assets	9,960
PROPERTY AND EQUIPMENT (Note 2)	
Buildings and Improvements	42,840
Boats and Canoes	1,032,063
Furniture and Equipment	38,809
Less Accumulated Depreciation	(438,690)
Net Property and Equipment	675,022
TOTAL ASSETS	<u>\$ 684,982</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES	
Short-term Portion of Note Payable (Note 8)	\$ 28,209
Total Current Liabilities	28,209
NET ASSETS (Note 2)	
Net Assets Without Donor Restrictions	656,773
Net Assets With Donor Restrictions	-
Total Net Assets	656,773
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 684,982</u>

The accompanying notes are an integral part of these financial statements.

HUI O WA' A KAULUA

Statement of Activities and Changes in Net Assets
For the Year Ended June 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE			
Grants and Donations	\$ 102,281	\$ -	\$ 102,281
In-kind Donations (Note 5)	94,500	-	94,500
Net Assets Released from Restrictions	-	-	-
Total Revenue	196,781	-	196,781
EXPENSES			
Direct Program Services	254,787	-	254,787
Management and General	35,292	-	35,292
Fundraising	-	-	-
Total Expenses	290,079	-	290,079
Change in Net Assets	(93,298)	-	(93,298)
NET ASSETS AT BEGINNING OF YEAR	750,071	-	750,071
NET ASSETS AT END OF YEAR	<u>\$ 656,773</u>	<u>\$ -</u>	<u>\$ 656,773</u>

The accompanying notes are an integral part of these financial statements.

HUI O WA' A KAULUA

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

	Direct Program Services	Supporting Services		Total
		Management and General	Fundraising	
EXPENSES				
In-kind Expense (Note 5)	\$ 94,500	\$ -	\$ -	\$ 94,500
Depreciation	57,635	-	-	57,635
Professional Fees	31,798	18,897	-	50,695
Insurance	24,923	4,399	-	29,322
Supplies	22,647	-	-	22,647
Advertising (Note 2)	15,000	390	-	15,390
Rent	6,576	6,576	-	13,152
Office Expense	47	2,331	-	2,378
Travel	1,661	-	-	1,661
Interest Expense	-	1,354	-	1,354
Bank Fees	-	1,040	-	1,040
Licenses and Fees	-	306	-	306
TOTAL EXPENSES	<u>\$ 254,787</u>	<u>\$ 35,292</u>	<u>\$ -</u>	<u>\$ 290,079</u>

HUI O WA' A KAULUA
Statement of Cash Flows
For the Year Ended June 30, 2021

CASH FLOWS FROM OPERATING ACTIVITIES

Cash Received from Contributions	\$ 102,281
Cash Paid to Employees and Vendors	<u>(137,944)</u>
Net Cash Used by Operating Activities (Note 4)	(35,663)

CASH FLOWS FROM INVESTING ACTIVITIES

-

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from Note Payable	20,000
Principle Payments on Note Payable	<u>(7,012)</u>
Net Cash Provided by Financing Activities	12,988

Net Decrease in Cash for the Year	<u>(22,675)</u>
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CASH BALANCE, BEGINNING OF YEAR

32,635

CASH BALANCE, ENDING OF YEAR

\$ 9,960

HUI O WA'A KAULUA

Notes to Financial Statements June 30, 2021

Note 1. ORGANIZATION

Hui O Wa'a Kaulua was incorporated under the laws of the State of Hawaii on October 10, 1978, as a nonprofit corporation. Hui O Wa'a Kaulua is organized for charitable, educational, recreational and scientific purposes only. The main purpose of the Organization is to promote, encourage participation in and provide education and instruction in Hawaiian culture through double and single hull sailing canoes and other related activities.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Method of Accounting: The Organization uses the modified cash basis method of accounting for financial statement reporting. Such basis differs from generally accepted accounting principles in that revenues are recognized when received rather than when earned and expenses are realized when paid rather than when the related obligation is incurred. As a result, the balance sheet includes fixed assets and notes payable, but excludes accounts receivable, prepaid and accrued expenses.

Cash and Cash Equivalents: The Organization considers all demand deposits and savings accounts with a maturity of three months or less to be cash equivalents. At June 30, 2021, the cash balances were fully insured by FDIC.

Property and Equipment: Property and equipment are stated at cost or fair market value at the date of donation for donated items. Property and equipment valued at \$5,000 or more and a useful life of greater than one year are depreciated on a straight-line basis over the estimated useful lives of the assets, which range from five to forty years.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Advertising Expenses: The Organization's advertising expenses are related to program services. There was a total of \$15,390 in advertising costs for the year ended June 30, 2021. It is considered a direct expense not incurring measurable future benefit. Advertising costs are expensed as incurred.

Net Assets: Net assets, revenue, and support are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Net assets without donor restrictions include all resources that are not subject to donor-imposed stipulations or contributions with donor-imposed restrictions that are met during the same year as the contribution is made. Net assets without donor restrictions denoted as property and equipment represent equity in such property and equipment.

Net assets with donor restriction include amounts that the donor subjects to restrictions in perpetuity and amounts subject to legal or donor-imposed stipulations that may or will be met either by actions of the Organization and/or passage of time.

As of June 30, 2021, the Organization had no net assets with donor restrictions.

HUI O WA'A KAULUA

Notes to Financial Statements June 30, 2021

Note 3. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

Management's policy is to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due.

Total Financial Assets at June 30, 2021	\$ 9,960
Less those unavailable for general expenditures within one year due to:	
Restricted by Donor with purpose restrictions	<u> -</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 9,960</u>

Note 4. RECONCILIATION OF CHANGE IN NET ASSETS WITH NET CASH USED BY OPERATING ACTIVITIES

Change in Net Assets	\$ (93,298)
Adjustments to Reconcile:	
Add back Depreciation	<u>57,635</u>
Net Cash Used by Operating Activities	<u>\$ (35,663)</u>

Note 5. IN-KIND DONATION

Hui O Wa'a Kaulua is situated on about 2 acres of land and uses a building and surrounding areas to construct and improve canoes and hold educational activities. The ownership of the land and building rests with the County of Maui and Hui O Wa'a Kaulua does not pay rent. Thus, an in-kind donation has been recorded on the books to reflect the estimated fair market value of the usage of the property. The estimated value of the donation at June 30, 2021 was \$54,500. In addition, the Organization also has an agreement with THP Associates to lease two large tent/yurt structures and the surrounding area within King Kamehameha Golf Course in Waikapu. The Organization is not required to pay rent and the estimated value of this donation as of June 30, 2021 is \$36,000. The Organization also had repairs and maintenance services donated for dry dock work on one of their boats in the amount of \$4,000.

HUI O WA' A KAULUA

Notes to Financial Statements June 30, 2021

NOTE 6. SUBSEQUENT EVENTS

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through May 2, 2022, the date the financial statements were available for use. There are no recognized subsequent events, or events that provide additional evidence about conditions that existed at the date the financial statements were available for use.

Subsequent to year end, the COVID-19 pandemic was still ongoing. The United States economy was negatively affected and the financial markets have experienced significant losses due to the outbreak. At the time these financial statements were available to be issued, the situation remained very volatile and the full effect of the pandemic on the operations of the Organization could not be determined.

Note 7. FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the various programs and activities have been summarized on a functional basis in the Statements of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Functional expenses are allocated to program related and administrative functions. Expense allocations are generally computed based on the number of employees or contractors performing program or administrative functions.

Note 8. NOTE PAYABLE

In January 2018, the Organization took out a loan with the Bank of Hawaii in the amount of \$25,000 at an interest rate of 5.480%, amortized over 59 payments. The balance as of June 30, 2021 was \$10,412

In July 2020, the Organization took out a loan with Hawaii Community Reinvestment Corporation in the amount of \$20,000. The loan has an interest only period at a rate of 3% amortized over 6 months and a principal and interest period at a rate of 5% amortized over the remaining 3 years and 6 months. The balance as of June 30, 2021 was \$17,797.

The total both loan balances as of June 30, 2021 was \$28,209. Subsequent to year end, the Organization paid off both loans by December 2021.

Note 9. RELATED PARTY

Timothy B. Gilliom is a Canoe Captain for the Organization and is the Board President's brother. Timothy has been with the Organization before the Board President and the board approves his service contract. He was paid \$12,000 for his services for the year ending June 30, 2021.

Note 10. CONCENTRATIONS

During year 2021, the Organization received approximately 72% of its cash revenue from donations, and the remaining 28% from local government grants.

HUI O WA'A KAULUA

Notes to Financial Statements June 30, 2021

Note 11. INCOME TAXES

The Organization is exempt from Federal income taxes under *Section 501(c)(3)* of the Internal Revenue Code and applicable State law.

The accounting standard on accounting for uncertainty in income taxes addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under that guidance, the Organization may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the Organization and various positions related to the potential sources of unrelated business taxable income (UBIT). The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. There were no unrecognized tax benefits identified or recorded as liabilities for June 30, 2021.

The Organization files its *Forms 990* in the U.S. Federal jurisdiction and the office of the Hawai'i State Attorney General. The Organization is generally no longer subject to examination by the Internal Revenue Service for years before 2018.

Note 12. RECENT ACCOUNTING PRONOUNCEMENTS

In February 2016, the FASB issued ASU 2016-02, *Leases*, which supersedes FASB Accounting Standards Codification (ASC) Topic 840, *Leases*, and makes other conforming amendments to U.S. GAAP. ASU 2016-02, requires, among other changes to the lease accounting guidance, lessees to recognize most leases on the balance sheet via a right-of-use asset and lease liability as well as additional qualitative and quantitative disclosures. ASU 2016-02 is effective for entity fiscal years beginning after December 15, 2021, but permits early adoption, and mandates a modified retrospective transition method. The provisions are effective for the Organization's fiscal year ending June 30, 2023. Management is currently evaluating the impact that the adoption of these provisions will have on the financial statements, but expects ASU 2016-02 to add significant right-of-use assets and lease liabilities to the statement of financial position.

In September 2020, the FASB issued ASU 2020-07, Not-for-Profit Entities (Topic 985): *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, effective for annual periods beginning after June 15, 2021 with early application permitted. The provisions are effective for the Organization's fiscal year ending June 30, 2022. Management is currently evaluating the impact that the adoption of these provisions will have on the financial statements.