

HAWAII PREPARATORY ACADEMY

**FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT
As of and for the Thirteen Months Ended June 30, 2024
With Prior Year Comparative Information
As of May 31, 2023 and for the Year Ended**





INDEPENDENT AUDITOR'S REPORT

Hawaii Preparatory Academy:

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Hawaii Preparatory Academy (Academy), a nonprofit Hawaii corporation, which comprise the statement of financial position as of June 30, 2024, and the related statements of activities, functional expenses, and cash flows for the thirteen months then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Academy as of June 30, 2024, and the changes in its net assets and its cash flows for the thirteen months then ended in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (U.S. GAAS). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the Academy, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Change in Accounting Principle

As discussed in Note A to the financial statements, during the thirteen months ended June 30, 2024, the Academy adopted Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. Our opinion is not modified in respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP; and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Responsibilities of Management for the Financial Statements (continued)

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Academy's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with U.S. GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with U.S. GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Academy's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Report on Prior Year Summarized Comparative Information

We have previously audited the Academy's May 31, 2023 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 8, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended May 31, 2023 is consistent, in all material respects, with the audited financial statements from which it has been derived.

CW Associates, CPAs

CW Associates, CPAs
Honolulu, Hawaii
December 9, 2024



HAWAII PREPARATORY ACADEMY

STATEMENT OF FINANCIAL POSITION

As of June 30, 2024

(With Prior Year Comparative Information as of May 31, 2023)

| | <u>2024</u> | <u>2023</u> |
|--|-----------------------|-----------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash (including interest-bearing accounts) | \$ 8,836,994 | \$ 3,584,917 |
| Receivables – net | 118,826 | 1,348,632 |
| Prepaid expenses and other current assets | 498,717 | 423,897 |
| Artwork inventory | 4,825,554 | 4,814,964 |
| Investment securities | <u>29,409,279</u> | <u>25,237,608</u> |
| Total current assets | <u>43,689,370</u> | <u>35,410,018</u> |
| NONCURRENT ASSETS | | |
| Property and equipment – net | 50,740,268 | 49,670,627 |
| Beneficial interest in Parker Ranch Foundation Trust | 37,255,042 | 37,604,490 |
| Beneficial interests in trusts held by others | 23,486,456 | 20,863,367 |
| Donated real estate held for investment | <u>751,070</u> | <u>751,070</u> |
| Total other noncurrent assets | <u>112,232,836</u> | <u>108,889,554</u> |
| TOTAL ASSETS | <u>\$ 155,922,206</u> | <u>\$ 144,299,572</u> |
| LIABILITIES AND NET ASSETS | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 761,049 | \$ 524,686 |
| Accrued liabilities | 1,645,523 | 2,148,561 |
| Tuition and other deposits | 13,924,164 | 4,833,858 |
| Notes payable – current | <u>485,000</u> | <u>2,375,000</u> |
| Total current liabilities | <u>16,815,736</u> | <u>9,882,105</u> |
| NONCURRENT LIABILITIES | | |
| Notes payable – noncurrent | 2,036,811 | 2,554,751 |
| Deferred revenue | <u>175,000</u> | <u>200,000</u> |
| Total noncurrent liabilities | <u>2,211,811</u> | <u>2,754,751</u> |
| TOTAL LIABILITIES | <u>19,027,547</u> | <u>12,636,856</u> |
| NET ASSETS | | |
| Net assets without donor restrictions | | |
| Undesignated | 39,730,444 | 38,058,539 |
| Board designated | <u>10,243,551</u> | <u>10,478,840</u> |
| Total net assets without donor restrictions | 49,973,995 | 48,537,379 |
| Net assets with donor restrictions | <u>86,920,664</u> | <u>83,125,337</u> |
| Total net assets | <u>136,894,659</u> | <u>131,662,716</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 155,922,206</u> | <u>\$ 144,299,572</u> |

See accompanying notes to the financial statements.

HAWAII PREPARATORY ACADEMY

STATEMENT OF ACTIVITIES

For the Thirteen Months Ended June 30, 2024
(With Prior Year Comparative Information for the Year Ended May 31, 2023)

| | <u>2024</u> | <u>2023</u> |
|--|-----------------------|-----------------------|
| CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS | | |
| Revenue and support | | |
| Tuition and fees – net | \$ 19,370,610 | \$ 19,313,670 |
| Net assets released from donor restrictions | 3,812,260 | 3,162,904 |
| Investment income – net | 2,117,801 | 722,807 |
| Contributions without donor restrictions | 1,625,263 | 632,293 |
| Special programs | 1,281,446 | 970,257 |
| Auxiliary services | 420,043 | 381,122 |
| In-kind contributions without donor restrictions | 121,181 | 18,715 |
| Other revenue and support | <u>46,069</u> | <u>7,191</u> |
| Total revenue and support | <u>28,794,673</u> | <u>25,208,959</u> |
| Expenses | | |
| Educational services | 22,288,838 | 21,009,581 |
| Management and general | 5,742,690 | 4,680,486 |
| Fundraising and development | <u>853,934</u> | <u>700,680</u> |
| Total expenses | <u>28,885,462</u> | <u>26,390,747</u> |
| Revenue and support less expenses | (90,789) | (1,181,788) |
| Gain on sale of property and equipment | <u>1,527,405</u> | <u>300</u> |
| Increase (decrease) in net assets without donor restrictions | <u>1,436,616</u> | <u>(1,181,488)</u> |
| CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS | | |
| Investment income – net | 3,288,910 | 974,905 |
| Changes in beneficial interests in trusts | 2,273,641 | (3,126,928) |
| Contributions with donor restrictions | 1,271,309 | 1,880,532 |
| Scholarship fundraising | 392,224 | 478,450 |
| Other changes in net assets with donor restrictions | 210,618 | 165,338 |
| In-kind contributions with donor restrictions | 170,885 | 53,192 |
| Net assets released from donor restrictions | <u>(3,812,260)</u> | <u>(3,162,904)</u> |
| Increase (decrease) in net assets with donor restrictions | <u>3,795,327</u> | <u>(2,737,415)</u> |
| INCREASE (DECREASE) IN NET ASSETS | 5,231,943 | (3,918,903) |
| NET ASSETS – Beginning of year | <u>131,662,716</u> | <u>135,581,619</u> |
| NET ASSETS – End of year | <u>\$ 136,894,659</u> | <u>\$ 131,662,716</u> |

See accompanying notes to the financial statements.

HAWAII PREPARATORY ACADEMY

STATEMENT OF FUNCTIONAL EXPENSES

**For the Thirteen Months Ended June 30, 2024
(With Prior Year Comparative Information for the Year Ended May 31, 2023)**

| | <u>Educational Services</u> | <u>Management and General</u> | <u>Fund- Raising and Development</u> | <u>2024 Total</u> | <u>2023 Total</u> |
|-------------------------------|---------------------------------|---------------------------------------|--|-----------------------------|-----------------------------|
| Salaries and related benefits | \$ 15,335,853 | \$ 3,076,843 | \$ 674,389 | \$ 19,087,085 | \$ 17,562,548 |
| Food services | 1,723,436 | 7,137 | - | 1,730,573 | 1,739,754 |
| Depreciation | 1,535,633 | 80,823 | - | 1,616,456 | 1,554,330 |
| General | 537,158 | 457,565 | - | 994,723 | 905,851 |
| Student activities | 930,425 | - | - | 930,425 | 579,564 |
| Professional fees | 39,823 | 743,999 | - | 783,822 | 536,048 |
| Insurance | 575,930 | 23,784 | 5,909 | 605,623 | 508,345 |
| Utilities | 573,677 | 15,178 | 3,785 | 592,640 | 565,775 |
| Technology | 95,068 | 321,663 | 42,297 | 459,028 | 295,977 |
| Occupancy | 364,717 | 46,890 | 760 | 412,367 | 657,222 |
| Cost of goods sold | 351,130 | 2,858 | - | 353,988 | 232,807 |
| Repair and maintenance | 16,789 | 332,430 | - | 349,219 | 325,087 |
| Travel | 49,892 | 120,178 | 5,602 | 175,672 | 126,227 |
| Printing and publications | 52,761 | 93,976 | 1,788 | 148,525 | 169,798 |
| Advertising | 82,890 | 50,004 | - | 132,894 | 125,955 |
| Fundraising | - | - | 119,079 | 119,079 | 40,682 |
| Miscellaneous | 287 | 103,345 | - | 103,632 | 30,022 |
| Professional development | - | 100,838 | - | 100,838 | 104,142 |
| Interest | - | 82,865 | - | 82,865 | 135,381 |
| Membership dues | 16,279 | 54,498 | - | 70,777 | 79,669 |
| Recruiting | - | 20,586 | - | 20,586 | 2,664 |
| Postage | 7,090 | 2,072 | 73 | 9,235 | 34,163 |
| Bad debts | - | 5,158 | - | 5,158 | 77,144 |
| Meetings and conferences | - | - | 252 | 252 | 1,592 |
| Total expenses | <u>\$ 22,288,838</u> | <u>\$ 5,742,690</u> | <u>\$ 853,934</u> | <u>\$ 28,885,462</u> | <u>\$ 26,390,747</u> |

See accompanying notes to the financial statements.

HAWAII PREPARATORY ACADEMY

STATEMENT OF CASH FLOWS

**For the Thirteen Months Ended June 30, 2024
(With Prior Year Comparative Information for the Year Ended May 31, 2023)**

| | <u>2024</u> | <u>2023</u> |
|---|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Increase (decrease) in net assets | \$ 5,231,943 | \$ (3,918,903) |
| Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities | | |
| In-kind contributions | (278,691) | (67,668) |
| Gain on sale of property and equipment | (1,527,405) | (300) |
| Net (gains) losses from investment securities | (3,415,072) | 608,948 |
| Contributions restricted for endowments | (62,020) | (1,157,234) |
| Contributions restricted for property and equipment | (586,200) | (30,050) |
| Depreciation | 1,616,456 | 1,554,330 |
| Changes in beneficial interests | (2,273,641) | 3,126,928 |
| (Increase) decrease in | | |
| Receivables – net | 1,229,806 | (937,697) |
| Prepaid expenses and other current assets | (74,820) | 24,448 |
| Artwork inventory | 67,420 | (45,249) |
| Increase (decrease) in | | |
| Accounts payable | 106,843 | (495,688) |
| Accrued liabilities | (503,038) | (114,877) |
| Tuition and deposits | 9,090,306 | 2,653,021 |
| Deferred revenue | <u>(25,000)</u> | <u>(25,000)</u> |
| Net cash provided by operating activities | <u>8,596,887</u> | <u>1,175,009</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Sales of investment securities | 8,159,066 | 8,635,256 |
| Purchases of investment securities | (8,722,509) | (7,294,300) |
| Proceeds from sale of property and equipment | 1,533,294 | - |
| Additions to property and equipment | <u>(2,554,941)</u> | <u>(644,100)</u> |
| Net cash provided (used) by investing activities | <u>(1,585,090)</u> | <u>696,856</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Additions to notes payable | - | 2,931,368 |
| Repayments of notes payable | (2,407,940) | (3,883,477) |
| Contributions restricted for endowments | 62,020 | 1,157,234 |
| Contributions restricted for property and equipment | <u>586,200</u> | <u>30,050</u> |
| Net cash provided (used) by financing activities | <u>(1,759,720)</u> | <u>235,175</u> |
| NET INCREASE IN CASH | 5,252,077 | 2,107,040 |
| CASH – Beginning of year | <u>3,584,917</u> | <u>1,477,877</u> |
| CASH – End of year | <u>\$ 8,836,994</u> | <u>\$ 3,584,917</u> |

See accompanying notes to the financial statements.

HAWAII PREPARATORY ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

**For the Thirteen Months Ended June 30, 2024
(With Prior Year Comparative Information for the Year Ended May 31, 2023)**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Activity

Hawaii Preparatory Academy (Academy) was incorporated in the State of Hawaii in March 1957. The Academy provides private education for students in grades kindergarten through high school at two campuses located in Waimea on the Island of Hawaii. Boarding facilities allow the Academy to serve students from various geographic areas. During 2024, the Academy changed its year end from May 31 to June 30.

The Academy is exempt from federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code and is not a private foundation. Accordingly, qualifying contributions to the Academy are tax deductible.

Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), which require the Academy to report information regarding its financial position and activities according to the following net asset classifications:

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

Net Assets with Donor Restrictions consist of net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature, those restrictions will be met by actions of the Academy or the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

The accompanying financial statements include certain prior year comparative information. Such information does not include sufficient detail to constitute a complete presentation in accordance with U.S. GAAP. Accordingly, such information should be read in conjunction with the Academy's financial statements as of and for the year ended May 31, 2023, from which the information was derived.

Certain amounts in the prior year comparative information have been reclassified to conform to the current year presentation. Such reclassifications had no impact on the previously reported changes in net assets.

Use of Estimates

U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates, it is reasonably possible that such estimates may change within the near term, and such difference could be material to the financial statements.

HAWAII PREPARATORY ACADEMY

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**For the Thirteen Months Ended June 30, 2024
(With Prior Year Comparative Information for the Year Ended May 31, 2023)**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Concentrations of Credit Risk

Financial instruments that potentially subject the Academy to credit risk primarily consist of cash, receivables, and investment securities. The Academy places its cash with high credit quality financial institutions and, by policy, limits the amount of credit exposure to any one financial institution. The Academy had approximately \$8,088,500 and \$1,282,000 in excess of federally insured limits at June 30, 2024 and May 31, 2023, respectively. The Academy's management has established certain credit requirements that its applicants must meet before credit is extended. The Academy monitors the financial condition of its applicants to help ensure collection of its account receivable and to minimize losses. Pledges receivable were due from one donor at June 30, 2024, and eight donors at May 31, 2023. The Academy maintains contact with donors throughout the year to identify and record an allowance for uncollectible pledges as they become known. Investment securities are stated at fair value and are generally insured by federal and private insurance, as represented by the custodians. Future changes in market prices may make such investments less valuable. Accounts receivables, which have been reduced by estimated allowances for credit losses (none at June 30, 2024 and May 31, 2023), are determined to be collectible or uncollectible based on an assessment by management of the facts and circumstances related to the individual accounts, including historical experience, an assessment of current and future economic conditions, and a review of subsequent collections.

Inventories

Bookstore inventories, amounting to \$66,446 and \$77,116 at June 30, 2024 and May 31, 2023, respectively (included in prepaid expenses and other current assets), consist primarily of textbooks, supplies, and logo items and are valued at the lower of cost or net realizable value. Cost is determined using the first-in, first-out (FIFO) method. The Academy also maintains an inventory of artwork and other collectible pieces that are designated by the Board to support the scholarship program, and are held for sale. Artwork inventory is valued at fair value upon receipt for items contributed to the Academy or at cost for items purchased by the Academy. Cost is determined using the specific identification method. Sales proceeds and the related gains are included in scholarship fundraising on the statement of activities.

Investment Securities

Investment securities are stated at fair value. Net realized and unrealized gains (losses), determined using the specific identification method, are included in investment income. Investment securities are classified as current or noncurrent based on their availability or intended use.

Property and Equipment

Property and equipment is stated at cost on the date of acquisition or at fair value on the date of donation, reduced by accumulated depreciation. Depreciation is computed using the straight-line method over estimated useful lives of 40 years for land improvements and for buildings and improvements, and three to 15 years for furniture and equipment. Major improvements and expenditures for property and equipment are capitalized. Repairs and maintenance are expensed as incurred.

HAWAII PREPARATORY ACADEMY

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**For the Thirteen Months Ended June 30, 2024
(With Prior Year Comparative Information for the Year Ended May 31, 2023)**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Beneficial Interests in Parker Ranch Foundation Trust and Trusts Held By Others

The Academy reports contributions of beneficial interests in Parker Ranch Foundation Trust and trusts held by others as donor restricted support for long term purposes as the Academy has limited access to the trust corpus. The beneficial interest in such trusts is recorded at the Academy's percentage share of distributions multiplied by the fair value of the trust as reported by the trustees, which is based on the fair value of the underlying assets. Annually, the Academy recognizes the change in the value of its beneficial interests in such trusts as a change in net assets with donor restrictions. Distributions of income from such trusts are reported as net assets without donor restrictions if they are received without explicit donor stipulations. Distributions received with explicit donor stipulations that limit the use of such distributions are reported as net assets with donor restrictions. When the funds are expended for the restricted purpose, the related net assets with donor restrictions are released to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Donated Real Estate Held for Investment

Donated real estate held for investment is stated at fair value at the date of donation, which is based on an appraisal of the real estate.

Financial Instruments

Management estimates that the fair values of all reported assets and liabilities representing financial instruments approximated their carrying values at June 30, 2024 and May 31, 2023. The estimated fair values have been determined using available market information and appropriate valuation methodologies. It is reasonably possible that such estimates may change within the near term.

Impairment of Long-Lived Assets

Long-lived assets (individual assets or asset groups) are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If future net cash flows are less than the carrying value of an asset, an impairment loss is recognized to the extent the asset's carrying value exceeds its fair value. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

HAWAII PREPARATORY ACADEMY

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Thirteen Months Ended June 30, 2024 (With Prior Year Comparative Information for the Year Ended May 31, 2023)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue, Support, and Expense Recognition

Revenue is recognized when the required goods or services are provided to customers. Amounts received prior to the provision of the services are reported as deferred revenue (\$175,000 and \$200,000 in 2024 and 2023, respectively).

Revenue is measured based on the consideration specified in a contract with the customer, and excludes any incentives and amounts collected on behalf of third parties. Revenue from tuition and fees income, special programs, and auxiliary services are recognized over time as the performance obligations are met. For the thirteen months ended June 30, 2024 and the year ended May 31, 2023, revenue from tuition and fees, reported net of tuition discounts for financial aid of \$3,737,006 and \$3,173,300, respectively, is deferred and recognized over the term of the school year. For the thirteen months ended June 30, 2024 and the year ended May 31, 2023, revenue from special programs of \$1,281,446 and \$970,257, and auxiliary services of \$420,043 and \$381,122, respectively, were recognized over the term of the special programs and auxiliary services. For the thirteen months ended June 30, 2024 and the year ended May 31, 2023, revenue from sources other than performance obligations consists of investment income of \$5,406,711 and \$1,697,712, other revenue and support of \$46,069 and \$7,191, and gain on sale of property and equipment of \$1,527,405 and \$300, and respectively.

Tuition remission for students whose parents are employed by the Academy, amounting to \$1,709,480 and \$1,634,465 for the thirteen months ended June 30, 2024 and the year ended May 31, 2023, respectively, is included in salaries and related benefits expense as an employee benefit.

Contributions are recognized when cash, investment securities, or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met. There were no conditional promises to give during the thirteen months ended June 30, 2024 and the year ended May 31, 2023. Such support is reported when pledged and is considered to be available for unrestricted use unless restricted by the donor. Donor restricted support is recognized when pledged as an increase in net assets with donor restrictions. When a restriction is satisfied or expires, net assets with donor restrictions are released to net assets without donor restrictions.

In-kind donations are recorded as contributions at their estimated fair value at donation. Investment securities are valued at fair market value and monetized soon after receipt. The fair value of artwork is based on the appraised value, and is held in inventory, and available for sale. Donated goods are valued at the wholesale or retail price for identical or similar items. Donated services are recognized as contributions if the services create or enhance nonfinancial assets, or require specialized skills that are performed by people with those skills and would otherwise be purchased. A number of unpaid volunteers have made contributions of their time to the Academy. The value of their time is not reflected in these financial statements because it does not meet the criteria for recognition. See Note L.

HAWAII PREPARATORY ACADEMY

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**For the Thirteen Months Ended June 30, 2024
(With Prior Year Comparative Information for the Year Ended May 31, 2023)**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue, Support, and Expense Recognition (continued)

The Academy reports in-kind contributions of investment securities, artwork inventory, real estate, property and equipment, and other items as net assets without donor restrictions unless explicit donor stipulations specify how the donated property must be used. In-kind contributions with explicit restrictions that specify how the property is to be used and contributions of cash and other assets that must be used for property additions are reported as restricted support. In the absence of explicit donor stipulations to the contrary, the Academy reports expirations of donor restrictions when the donated or acquired property and equipment is placed in service.

The Academy allocates expenses on a functional basis among its various programs and supporting services based on estimates by management. Expenses that can be identified with a specific program or supporting service are charged directly to the program or supporting service. Other expenses that are common to several functions are allocated based on management's estimate of the time and effort of Academy personnel. Expenses, including advertising expenses amounting to \$132,894 and \$125,955 for the thirteen months ended June 30, 2024 and the year ended May 31, 2023, respectively, are recognized when the related liability is incurred.

Employee Retirement Plan

The Academy sponsors a defined contribution, salary reduction retirement plan covering substantially all of its employees, to which it contributes a percentage of their compensation, up to the maximum allowed under Internal Revenue Code section 403(b). Employees may also contribute to the plan. Such retirement plan expense amounted to \$1,071,530 and \$1,011,361 for the thirteen months ended June 30, 2024 and the year ended May 31, 2023, respectively.

Hawaii General Excise Tax

The State of Hawaii imposes a general excise tax of 4% on the gross receipts of the Academy from certain revenue, plus an additional 0.5% on such gross receipts within the County of Hawaii. Hawaii general excise tax included in expenses amounted to \$27,376 and \$29,633 for the thirteen months ended June 30, 2024 and the year ended May 31, 2023, respectively.

Income Taxes

U.S. GAAP requires uncertain tax positions to be recognized in the financial statements if they are more likely than not to fail upon regulatory examination. Management has evaluated the Academy's tax positions as of and for the thirteen months ended June 30, 2024 and as of and for the year ended May 31, 2023, and determined that the Academy had no uncertain tax positions required to be reported in accordance with U.S. GAAP. The Academy is subject to routine audits by taxing jurisdictions; however, there are currently no audits in progress for any open tax periods.

HAWAII PREPARATORY ACADEMY

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**For the Thirteen Months Ended June 30, 2024
(With Prior Year Comparative Information for the Year Ended May 31, 2023)**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Board Designated Funds for Programs

The Board of Trustees designates portions of the Academy's net assets for programs. Those funds are considered net assets without donor restrictions as the designation can be changed by the Board of Trustees at any time.

Adoption of New Accounting Pronouncement

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

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

The Academy adopted this ASU during the thirteen months ended June 30, 2024. The impact of the adoption of this ASU was not material to the financial statements and primarily only resulted in enhanced disclosures, as the financial assets of the Academy consists of receivables due in one year or less.

NOTE B – LIQUIDITY

The Academy manages its liquid resources by focusing on its operations to ensure that it has adequate resources to fund the programs it conducts. Management prepares annual budgets and monitors actual financial results each month to ensure that it controls costs and remains liquid. The Academy's policy is to maintain cash balances sufficient to provide for its general expenditures, liabilities, and other obligations as they come due. Receivables are subject to implied time restrictions, but are expected to be collected within one year.

HAWAII PREPARATORY ACADEMY

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**For the Thirteen Months Ended June 30, 2024
(With Prior Year Comparative Information for the Year Ended May 31, 2023)**

NOTE B – LIQUIDITY (Continued)

The following reflects the Academy’s financial assets as of June 30, 2024 and May 31, 2023 available to meet cash needs for general expenditures within one year of the statement of financial position date:

| | <u>2024</u> | <u>2023</u> |
|---|----------------------|---------------------|
| Cash (including interest-bearing accounts) | \$ 8,836,994 | \$ 3,584,917 |
| Receivables – net | 118,826 | 1,348,632 |
| Investment securities | 29,409,279 | 25,237,608 |
| Beneficial interest in Parker Ranch Foundation Trust | 37,255,042 | 37,604,490 |
| Other beneficial interests in trusts held by others | <u>23,486,456</u> | <u>20,863,367</u> |
| Total financial assets | 99,106,597 | 88,639,014 |
| Net assets with donor restrictions | <u>(86,920,664)</u> | <u>(83,125,337)</u> |
| Financial assets available to meet cash needs for general expenditures within one year | <u>\$ 12,185,933</u> | <u>\$ 5,513,677</u> |

NOTE C – RECEIVABLES – NET

At June 30, 2024 and May 31, 2023, receivables – net consisted of the following:

| | <u>2024</u> | <u>2023</u> |
|-----------------------------|-------------------|---------------------|
| Accounts receivable | \$ 176,260 | \$ 213,992 |
| Allowance for credit losses | <u>(133,000)</u> | <u>(135,000)</u> |
| Accounts receivable – net | <u>43,260</u> | <u>78,992</u> |
| Pledges receivable – net | <u>1,000</u> | <u>1,240,950</u> |
| Interest receivable | <u>74,566</u> | <u>28,690</u> |
| Receivables – net | <u>\$ 118,826</u> | <u>\$ 1,348,632</u> |

At June 30, 2024 and May 31, 2023, pledges receivable totaled \$1,000 and \$1,240,950, respectively. Pledges receivable at June 30, 2024 and May 31, 2023 are reported net of estimated allowances for credit losses of \$0. At June 30, 2024, the expected maturity of pledges receivable was \$1,000 for the year ending June 30, 2025. The pledges receivable balance includes amounts due from members of the Board totaling \$0 and \$1,010,000 at June 30, 2024 and May 31, 2023, respectively. Contributions from officers and members of the Board totaled \$103,388 and \$43,182 for the thirteen months ended June 30, 2024 and the year ended May 31, 2023, respectively.

HAWAII PREPARATORY ACADEMY

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**For the Thirteen Months Ended June 30, 2024
(With Prior Year Comparative Information for the Year Ended May 31, 2023)**

NOTE D – INVESTMENT SECURITIES

At June 30, 2024 and May 31, 2023, investment securities consisted of the following:

| | 2024 | | 2023 | |
|------------------------------------|----------------------|----------------------|----------------------|----------------------|
| | Cost | Fair Value | Cost | Fair Value |
| Equity securities | \$ 5,135,571 | \$ 8,035,084 | \$ 5,484,727 | \$ 6,293,234 |
| Fixed income securities | | | | |
| U.S. Treasury and | | | | |
| U.S. Government agencies | 7,426,370 | 7,172,270 | 6,370,983 | 5,805,677 |
| Equity mutual funds | 5,017,815 | 6,410,873 | 5,405,008 | 6,101,591 |
| Other investments | | | | |
| Private equity and other | 4,313,061 | 5,282,249 | 4,152,906 | 5,389,426 |
| Hedge fund | 2,080,000 | 2,508,803 | 1,498,843 | 1,647,680 |
| Total investment securities | \$ 23,972,817 | \$ 29,409,279 | \$ 22,912,467 | \$ 25,237,608 |

The Academy has formal commitments with certain investees to make additional contributions up to agreed-upon amounts. The Academy, at the discretion of the investee, may be called upon to fully fund its commitments. At June 30, 2024 and May 31, 2023, the Academy had outstanding funding commitments of approximately \$65,000 and \$67,500, respectively.

For the thirteen months ended June 30, 2024 and the year ended May 31, 2023, investment income consisted of the following:

| | <u>2024</u> | <u>2023</u> |
|--|---------------------|---------------------|
| Interest and dividends | \$ 2,157,768 | \$ 2,458,063 |
| Net realized gains (losses) from sales of investment securities | 303,751 | (419,600) |
| Net unrealized gains (losses) from holding investment securities | 3,111,321 | (189,348) |
| Investment fees | (166,129) | (151,403) |
| Investment income – net | \$ 5,406,711 | \$ 1,697,712 |

HAWAII PREPARATORY ACADEMY

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**For the Thirteen Months Ended June 30, 2024
(With Prior Year Comparative Information for the Year Ended May 31, 2023)**

NOTE E – PROPERTY AND EQUIPMENT

At June 30, 2024 and May 31, 2023, property and equipment consisted of the following:

| | <u>2024</u> | <u>2023</u> |
|------------------------------|----------------------|----------------------|
| Land | \$ 6,912,078 | \$ 6,312,078 |
| Land improvements | 8,072,535 | 8,072,535 |
| Buildings and improvements | 47,267,663 | 47,194,552 |
| Furniture and equipment | <u>18,176,620</u> | <u>17,436,508</u> |
| Total | 80,428,896 | 79,015,673 |
| Accumulated depreciation | <u>(31,321,466)</u> | <u>(29,724,100)</u> |
| Total | 49,107,430 | 49,291,573 |
| Construction-in-progress | <u>1,632,838</u> | <u>379,054</u> |
| | | |
| Property and equipment – net | <u>\$ 50,740,268</u> | <u>\$ 49,670,627</u> |

NOTE F – BENEFICIAL INTERESTS IN TRUSTS

The Academy has a 16% beneficial interest in the Parker Ranch Foundation Trust (Trust), a nonprofit Type I supporting organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Trust's primary objective is to support educational and other organizations in Kamuela, Hawaii. The Trustees, based on recommendations from a Distribution Committee, determine the timing and amount of distributions from the Trust. Distributions from the Trust to the Academy amounted to \$592,924 and \$644,139 for the thirteen months ended June 30, 2024 and year ended May 31, 2023, respectively. The net asset value of the Trust, based on the fair value of the Trust's assets, was approximately \$233,076,789 and \$235,028,065 at June 30, 2024 (unaudited) and 2023 (unaudited), respectively. The Academy's 16% portion of the Trust's assets was \$37,255,042 and \$37,604,490 as of June 30, 2024 and May 31, 2023, respectively. The change in the beneficial interest in the Trust for the thirteen months ended June 30, 2024 and year ended May 31, 2023 was (\$349,448) and (\$1,254,781), respectively. The Academy's beneficial interest in the equity of the Trust is restricted for long term purposes. Distributions and decreases in net asset value are released from restrictions, while increases in net asset value are added to restrictions.

HAWAII PREPARATORY ACADEMY

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**For the Thirteen Months Ended June 30, 2024
(With Prior Year Comparative Information for the Year Ended May 31, 2023)**

NOTE F – BENEFICIAL INTERESTS IN TRUSTS (Continued)

At June 30, 2024, other beneficial interests in trusts held by others consisted of the following:

| | Estimated Fair <u>Value</u> | Share of <u>Income</u> | Beneficial <u>Interest</u> |
|---|-----------------------------------|------------------------------|-------------------------------|
| C.N. Wodehouse Faculty Benefit Trust | \$ 21,383,590 | 100.00% | \$ 21,383,590 |
| Mary Wilson Crawford Trust | \$ 3,443,939 | 33.33% | 1,147,865 |
| Robert E. Black Memorial Trust | \$ 63,666,733 | 1.50% | <u>955,001</u> |
| Total other beneficial interests in trusts held by others | | | <u>\$ 23,486,456</u> |

At May 31, 2023, other beneficial interests in trusts held by others consisted of the following:

| | Estimated Fair <u>Value</u> | Share of <u>Income</u> | Beneficial <u>Interest</u> |
|---|-----------------------------------|------------------------------|-------------------------------|
| C.N. Wodehouse Faculty Benefit Trust | \$ 19,215,942 | 100.00% | \$ 19,215,942 |
| Mary Wilson Crawford Trust | \$ 3,021,634 | 33.33% | 1,007,211 |
| Robert E. Black Memorial Trust | \$ 42,680,924 | 1.50% | <u>640,214</u> |
| Total other beneficial interests in trusts held by others | | | <u>\$ 20,863,367</u> |

The assets of the aforementioned trusts are primarily invested in marketable securities and income is distributed annually to the beneficiaries. The income from the C.N. Wodehouse Faculty Benefit Trust is restricted for faculty benefits, salaries, housing improvements, and computer equipment replacement. This income is classified as net assets with donor restriction and is recognized upon receipt from the trust. Income from the other trusts is classified as net assets without donor restriction and recognized upon receipt from the trusts.

Increases in the value in the beneficial interests in trusts held by others were \$2,623,089 for the thirteen months ended June 30, 2024 and decreases in the value in the beneficial interests in trusts held by others were \$1,872,147 for the year ended May 31, 2023.

HAWAII PREPARATORY ACADEMY

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**For the Thirteen Months Ended June 30, 2024
(With Prior Year Comparative Information for the Year Ended May 31, 2023)**

NOTE F – BENEFICIAL INTERESTS IN TRUSTS (Continued)

Distributions received from beneficial interests in trusts held by others for the thirteen months ended June 30, 2024 and the year ended May 31, 2023 were as follows:

| | <u>2024</u> | <u>2023</u> |
|---|-------------------------|-------------------------|
| C.N. Wodehouse Faculty Benefit Trust | \$ 1,096,044 | \$ 1,020,574 |
| Robert E. Black Memorial Trust | 53,626 | 43,764 |
| Mary Wilson Crawford Trust | 42,338 | 41,784 |
| Rebecca Carter Fund | 3,572 | 3,550 |
| A.S. Atherton Memorial Scholarship Fund | <u>2,740</u> | <u>2,704</u> |
| Total distributions from beneficial interests in trusts | <u>\$ 1,198,320</u> | <u>\$ 1,112,376</u> |

NOTE G – DONATED REAL ESTATE HELD FOR INVESTMENT

At June 30, 2024 and May 31, 2023, donated real estate held for investment consisted of the following:

| | <u>2024</u> | <u>2023</u> |
|---|-----------------------|-----------------------|
| Without donor restrictions | | |
| Land and building received under a charitable remainder trust | \$ 658,070 | \$ 658,070 |
| Waipio Valley land | 52,900 | 52,900 |
| Cemetery plots | <u>5,100</u> | <u>5,100</u> |
| Total without donor restrictions | 716,070 | 716,070 |
| With donor restrictions – land | <u>35,000</u> | <u>35,000</u> |
| Donated real estate held for investment | <u>\$ 751,070</u> | <u>\$ 751,070</u> |

NOTE H – FAIR VALUE MEASUREMENTS

FASB *Accounting Standards Codification Section 820* (ASC 820) establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

HAWAII PREPARATORY ACADEMY

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**For the Thirteen Months Ended June 30, 2024
(With Prior Year Comparative Information for the Year Ended May 31, 2023)**

NOTE H – FAIR VALUE MEASUREMENTS (Continued)

There are three levels of the fair value hierarchy under ASC 820. Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Academy has the ability to access. Level 2 inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data by correlation or other means. Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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 unobservable inputs (Level 3 measurements). If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

The Academy's investments are recorded at fair value as follows:

- *Equity securities and equity mutual funds* are stated at fair value using quoted market prices (Level 1).
- *Fixed income securities* are traded in active markets; quoted prices are obtained for similar assets, and fair values are recorded on a recurring basis (Level 2).
- *Other investments* have been valued at fair value based on specified contractual terms (Level 2) and the net asset value per share reported by the investment manager in accordance with ASC 820-10-35-59 (Level 3).
- *Other beneficial interests in trusts held by others* (other than the beneficial interest in the Parker Ranch Foundation Trust) are valued based on the Academy's share of equity or fixed income securities held by the trustee which have been valued based on quoted market prices for identical or similar securities and are shown in the following tables with the Academy's investment securities.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Academy believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

HAWAII PREPARATORY ACADEMY

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**For the Thirteen Months Ended June 30, 2024
(With Prior Year Comparative Information for the Year Ended May 31, 2023)**

NOTE H – FAIR VALUE MEASUREMENTS (Continued)

The following sets forth by level, within the fair value hierarchy, the Academy’s investment securities and investments in other beneficial interests in trusts held by others (other than the beneficial interest in the Parker Ranch Foundation Trust) at fair value as of June 30, 2024:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|--|--------------------------|--------------------------|-----------------------|--------------------------|
| Equity mutual funds | | | | |
| U.S. Equity – blend | \$ 19,809,759 | \$ - | \$ - | \$ 19,809,759 |
| International | 7,083,276 | - | - | 7,083,276 |
| Fixed income | 5,168,259 | - | - | 5,168,259 |
| Emerging markets | 1,086,992 | - | - | 1,086,992 |
| Other | <u>274,604</u> | <u>-</u> | <u>-</u> | <u>274,604</u> |
| Total equity mutual funds | <u>33,422,890</u> | <u>-</u> | <u>-</u> | <u>33,422,890</u> |
| Other investments | | | | |
| Hedge funds, private equity, and other | <u>-</u> | <u>7,631,518</u> | <u>159,534</u> | <u>7,791,052</u> |
| Total other investments | <u>-</u> | <u>7,631,518</u> | <u>159,534</u> | <u>7,791,052</u> |
| Fixed income securities | | | | |
| Corporate and other | - | 6,846,833 | - | 6,846,833 |
| U.S. Government agencies | <u>-</u> | <u>1,467,680</u> | <u>-</u> | <u>1,467,680</u> |
| Total fixed income securities | <u>-</u> | <u>8,314,513</u> | <u>-</u> | <u>8,314,513</u> |
| Equity securities | | | | |
| Consumer goods | 1,004,400 | - | - | 1,004,400 |
| Technology | 788,232 | - | - | 788,232 |
| Financials | 461,322 | - | - | 461,322 |
| Healthcare | 338,876 | - | - | 338,876 |
| Energy | 148,171 | - | - | 148,171 |
| Telecommunications | 32,245 | - | - | 32,245 |
| Utilities | 26,765 | - | - | 26,765 |
| Other | <u>16,743</u> | <u>-</u> | <u>-</u> | <u>16,743</u> |
| Total equity securities | <u>2,816,754</u> | <u>-</u> | <u>-</u> | <u>2,816,754</u> |
| Cash management | <u>550,526</u> | <u>-</u> | <u>-</u> | <u>550,526</u> |
| Total fair value | <u>\$ 36,790,170</u> | <u>\$ 15,946,031</u> | <u>\$ 159,534</u> | <u>\$ 52,895,735</u> |

HAWAII PREPARATORY ACADEMY

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**For the Thirteen Months Ended June 30, 2024
(With Prior Year Comparative Information for the Year Ended May 31, 2023)**

NOTE H – FAIR VALUE MEASUREMENTS (Continued)

The following sets forth by level, within the fair value hierarchy, the Academy’s investment securities and investments in other beneficial interests in trusts held by others (other than the beneficial interest in the Parker Ranch Foundation Trust) at fair value as of May 31, 2023:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|--|--------------------------|--------------------------|-----------------------|--------------------------|
| Equity mutual funds | | | | |
| U.S. Equity – blend | \$ 17,216,786 | \$ - | \$ - | \$ 17,216,786 |
| International | 6,424,427 | - | - | 6,424,427 |
| Fixed income | 4,628,719 | - | - | 4,628,719 |
| Emerging markets | 947,316 | - | - | 947,316 |
| Other | <u>318,025</u> | <u>-</u> | <u>-</u> | <u>318,025</u> |
| Total equity mutual funds | <u>29,535,273</u> | <u>-</u> | <u>-</u> | <u>29,535,273</u> |
| Other investments | | | | |
| Hedge funds, private equity, and other | <u>-</u> | <u>6,774,150</u> | <u>262,956</u> | <u>7,037,106</u> |
| Total other investments | <u>-</u> | <u>6,774,150</u> | <u>262,956</u> | <u>7,037,106</u> |
| Fixed income securities | | | | |
| Corporate and other | - | 1,002,922 | - | 1,002,922 |
| U.S. Government agencies | <u>-</u> | <u>5,805,677</u> | <u>-</u> | <u>5,805,677</u> |
| Total fixed income securities | <u>-</u> | <u>6,808,599</u> | <u>-</u> | <u>6,808,599</u> |
| Equity securities | | | | |
| Consumer goods | 942,071 | - | - | 942,071 |
| Technology | 590,318 | - | - | 590,318 |
| Financials | 376,269 | - | - | 376,269 |
| Healthcare | 417,114 | - | - | 417,114 |
| Energy | 162,152 | - | - | 162,152 |
| Telecommunications | 42,967 | - | - | 42,967 |
| Utilities | 12,962 | - | - | 12,962 |
| Other | <u>21,259</u> | <u>-</u> | <u>-</u> | <u>21,259</u> |
| Total equity securities | <u>2,565,112</u> | <u>-</u> | <u>-</u> | <u>2,565,112</u> |
| Cash management | <u>154,885</u> | <u>-</u> | <u>-</u> | <u>154,885</u> |
| Total fair value | <u>\$ 32,255,270</u> | <u>\$ 13,582,749</u> | <u>\$ 262,956</u> | <u>\$ 46,100,975</u> |

HAWAII PREPARATORY ACADEMY

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**For the Thirteen Months Ended June 30, 2024
(With Prior Year Comparative Information for the Year Ended May 31, 2023)**

NOTE H – FAIR VALUE MEASUREMENTS (Continued)

The activity for other investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the Academy for the thirteen months ended June 30, 2024 and the year ended May 31, 2023 consisted of the following:

| | <u>2024</u> | <u>2023</u> |
|-------------------|-------------------|------------------|
| Beginning Balance | \$ 262,956 | \$416,682 |
| Purchases | 63,218 | 116,013 |
| Sales | (90,111) | (140,134) |
| Unrealized losses | <u>(76,529)</u> | <u>(129,605)</u> |
| Ending Balance | <u>\$ 159,534</u> | <u>\$262,956</u> |

NOTE I – NOTES PAYABLE

At June 30, 2024 and May 31, 2023, notes payable consisted of the following:

| | <u>2024</u> | <u>2023</u> |
|---|---------------------|---------------------|
| \$2,240,000 secured capital projects term loan, interest at 3.0%, due August 2030 | \$ 1,459,579 | \$ 1,689,140 |
| \$2,000,000 unsecured revolving line-of-credit, interest at 3.0%, due May 2024, paid in full in 2024 | - | 1,030,000 |
| \$2,000,000 unsecured term loan, interest at 7.75% due June 2024, paid in full in 2024 | - | 850,000 |
| \$600,000 secured capital projects term loan, interest at 2.75%, due July 2025 | 389,748 | 446,679 |
| \$500,000 dining/kitchen improvement loan, interest at 0.00% due May 2031 | 317,014 | 366,667 |
| \$300,000 secured capital projects term loan, interest at 2.75%, due July 2025 | 143,066 | 185,587 |
| \$300,000 secured capital projects term loan, interest at 2.72%, due August 2027 | 142,761 | 188,855 |
| \$700,000 secured term loan, interest at 3.125%, through January 2020 and 2.75% from January 2020, due January 2025 | 45,150 | 126,224 |
| \$100,000 secured capital projects term loan, interest at 2.61%, due August 2025 | <u>24,493</u> | <u>46,599</u> |
| Total notes payable | 2,521,811 | 4,929,751 |
| Notes payable – current | <u>(485,000)</u> | <u>(2,375,000)</u> |
| Notes payable – noncurrent | <u>\$ 2,036,811</u> | <u>\$ 2,554,751</u> |

HAWAII PREPARATORY ACADEMY

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**For the Thirteen Months Ended June 30, 2024
(With Prior Year Comparative Information for the Year Ended May 31, 2023)**

NOTE I – NOTES PAYABLE (Continued)

The secured loans are secured by a pledge of the Academy’s investment management account managed by a bank, which includes portions of the Academy’s cash (including interest-bearing accounts). At June 30, 2024 and May 31, 2023, the market value of cash and securities in the investment management account was approximately \$7,300,000 and \$8,800,000, respectively.

At June 30, 2024, scheduled maturities of notes payable approximated the following:

| | |
|-------------------------|--------------------|
| Years Ending June 30th | |
| 2025 | \$ 485,000 |
| 2026 | 741,600 |
| 2027 | 324,300 |
| 2028 | 292,900 |
| 2029 | 292,400 |
| Thereafter (cumulative) | <u>385,611</u> |
| Total | <u>\$2,521,811</u> |

At June 30, 2024 and May 31, 2023, the Academy had \$2,500,000 secured revolving credit facility with a bank that matured in August 2024. Advances on the line are term loans with various terms, amortization periods, and interest rate options. There were no amounts outstanding under this agreement at June 30, 2024 and May 31, 2023.

NOTE J – NET ASSETS WITHOUT DONOR RESTRICTIONS – BOARD DESIGNATED

As discussed in Note K, endowment assets include those donor-restricted funds that the Academy must hold in perpetuity or for a donor-specified period, as well as board-designated funds.

As of June 30, 2024 and May 31, 2023, the Academy’s board designated endowment funds amounted to \$10,243,551 and \$10,478,840, respectively.

HAWAII PREPARATORY ACADEMY

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**For the Thirteen Months Ended June 30, 2024
(With Prior Year Comparative Information for the Year Ended May 31, 2023)**

NOTE J – NET ASSETS WITHOUT DONOR RESTRICTIONS – BOARD DESIGNATED (Continued)

For the thirteen months ended June 30, 2024 and the year ended May 31, 2023, the Academy had the following board designated endowment-related activities:

| | <u>2024</u> | <u>2023</u> |
|--|-------------------------------|-------------------------------|
| Investment return | | |
| Investment gains | \$ 183,220 | \$ 45,862 |
| Net unrealized gains (losses) | <u>964,679</u> | <u>(76,685)</u> |
| Total investment gains (losses) | 1,147,899 | (30,823) |
| Contributions to endowment funds | 500 | - |
| Withdrawals from endowment funds | (900,000) | - |
| Transfers as restrictions released | <u>(483,688)</u> | <u>(472,171)</u> |
| Total change in board designated endowment funds | <u><u>\$(235,289)</u></u> | <u><u>\$(502,994)</u></u> |

NOTE K – NET ASSETS WITH DONOR RESTRICTIONS

At June 30, 2024 and May 31, 2023, net assets with donor restrictions consisted of the following:

| | <u>2024</u> | <u>2023</u> |
|--|---------------------------------|---------------------------------|
| Net assets with donor restrictions | | |
| Donor restricted by time | \$ 60,741,498 | \$ 58,467,857 |
| Donor restricted for programs | 14,611,623 | 13,151,457 |
| Donor restricted for endowment funds | <u>11,567,543</u> | <u>11,506,023</u> |
| Total net assets with donor restrictions | <u><u>\$ 86,920,664</u></u> | <u><u>\$ 83,125,337</u></u> |

Donor Restricted by Time

Net assets with donor restrictions restricted by time amounted to \$60,741,498 and \$58,467,857 at June 30, 2024 and May 31, 2023, respectively, include beneficial interests in trusts and are subject to the restrictions in the gift instruments requiring that the principal be invested in perpetuity and only income be utilized currently (See Note F).

HAWAII PREPARATORY ACADEMY

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**For the Thirteen Months Ended June 30, 2024
(With Prior Year Comparative Information for the Year Ended May 31, 2023)**

NOTE K – NET ASSETS WITH DONOR RESTRICTIONS (Continued)

Donor Restricted for Programs

Net assets with donor restrictions are released from restriction by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors. Information relating to restrictions released during the thirteen months ended June 30, 2024 and the year ended May 31, 2023, and the remaining balances at June 30, 2024 and May 31, 2023 is summarized below:

| | 2024 | | 2023 | |
|--|---------------------------------|------------------------------|---------------------------------|------------------------------|
| | <u>Restriction Released</u> | <u>Available Balance</u> | <u>Restriction Released</u> | <u>Available Balance</u> |
| Purpose of restriction | | | | |
| School operations, including scholarships | \$ 3,346,523 | \$ 6,029,467 | \$ 2,793,688 | \$ 6,559,968 |
| Capital improvement funds | 587,963 | 638,852 | 366,742 | 197,596 |
| Investment of endowment earnings, earnings, including unrealized appreciation (depreciation) | <u>(122,226)</u> | <u>7,943,304</u> | <u>2,474</u> | <u>6,393,893</u> |
| Total | <u>\$ 3,812,260</u> | <u>\$ 14,611,623</u> | <u>\$ 3,162,904</u> | <u>\$ 13,151,457</u> |

Donor Restricted for Endowment Funds

Net assets with donor restrictions for endowment funds amounted to \$11,567,543 and \$11,506,023 at June 30, 2024 and May 31, 2023, respectively, and consist of scholarship and faculty operations endowment funds. Such funds are subject to the restrictions in the gift instruments requiring that the principal be invested in perpetuity; only income can be utilized currently.

The Academy's endowment includes approximately 80 individual donor-restricted funds established for a variety of purposes. The Academy's endowment consists of both donor-restricted funds and funds designated by the Board to function as endowments. Net assets with donor restrictions associated with these endowment funds, including Board-designated funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

HAWAII PREPARATORY ACADEMY

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**For the Thirteen Months Ended June 30, 2024
(With Prior Year Comparative Information for the Year Ended May 31, 2023)**

NOTE K – NET ASSETS WITH DONOR RESTRICTIONS (Continued)

Donor Restricted for Endowment Funds (continued)

Accounting standards provide guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). An enacted version of UPMIFA was in effect in the State of Hawaii for the thirteen months ended June 30, 2024 and the year ended May 31, 2023. As a result of this interpretation, the Academy classifies as net assets restricted for long term purposes: (a) the original value of contributions received for the permanent endowment; (b) the original value of subsequent contributions to the permanent endowment; and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in net assets restricted for long term purposes is classified as net assets restricted for time and program purposes until those amounts are appropriated for expenditure by the Board in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Academy considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (a) the duration and preservation of the fund; (b) the purposes of the Academy and the donor-restricted endowment fund; (c) general economic conditions; (d) the possible effect of inflation and deflation; (e) the expected total return from income and the appreciation of investments; (f) other resources of the Academy; and (g) the investment policies of the Academy.

The Academy 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 Academy must hold in perpetuity or for a donor-specified period as well as board-designated funds. Under this policy, the endowment assets are invested in a manner to ensure that the future growth of the endowment assets is sufficient to offset normal inflation plus reasonable spending, thereby preserving the constant dollar value and purchasing power of the endowment funds for future generations. The Academy expects its endowment funds to seek an average total annual real return of 6% over the increase in the annual consumer price index. This will be measured over a rolling five-year time period. The endowment assets have a long-term, indefinite time horizon that runs concurrent with the endurance of the Academy, in perpetuity.

As such, these funds can assume a time horizon that extends well beyond a normal market cycle, and can assume an above-average level of risk.

To satisfy these objectives, the Academy uses both professional management and sufficient portfolio diversification to smooth volatility and to help assure a reasonable and consistent return. To achieve diversification, the endowment assets are allocated among a number of asset classes which may include: domestic equity, domestic fixed income, global equity, private equity, and cash. The Academy places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

HAWAII PREPARATORY ACADEMY

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**For the Thirteen Months Ended June 30, 2024
(With Prior Year Comparative Information for the Year Ended May 31, 2023)**

NOTE K – NET ASSETS WITH DONOR RESTRICTIONS (Continued)

Donor Restricted for Endowment Funds (continued)

The Academy’s spending policy allocates total earnings from the endowment assets between current spending and reinvestment for future earnings and has been designed with these objectives in mind: provide current programs with a predictable, stable stream of revenues, and ensure that the purchasing power of this revenue stream and of the endowment assets does not decline over time. The target annual distribution rate shall be 4.5% trailing 12-quarter average of the endowment’s total asset value at June 30 of each fiscal year, not to exceed 5% more than the previous year distribution.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the Academy is required to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in net assets without donor restrictions approximated \$61,200 and \$99,600 as of June 30, 2024 and May 31, 2023, respectively. These deficiencies resulted from unfavorable market fluctuations and continued appropriations for certain programs that were deemed prudent by the Board.

As of June 30, 2024 and May 31, 2023, the Academy’s donor restricted endowment funds consisted of the following:

| | <u>2024</u> | <u>2023</u> |
|----------------------------------|--------------------------|--------------------------|
| Donor-restricted endowment funds | | |
| Endowments | \$ 11,567,543 | \$ 11,506,023 |
| By programs | <u>6,929,382</u> | <u>5,458,665</u> |
| Total | <u>\$ 18,496,925</u> | <u>\$ 16,964,688</u> |

For the thirteen months ended June 30, 2024 and the year ended May 31, 2023, the Academy had the following endowment-related activities:

| | <u>2024</u> | <u>2023</u> |
|--------------------------------------|-------------------------|-----------------------|
| Investment return (loss) | | |
| Investment gains | \$ 519,251 | \$ 64,278 |
| Net unrealized gains (losses) | <u>1,670,875</u> | <u>(112,664)</u> |
| Total investment return (loss) | 2,190,126 | (48,386) |
| Contributions to endowment funds | 61,520 | 1,157,234 |
| Other | 634 | 504 |
| Amounts appropriated for expenditure | (84,194) | (84,469) |
| Transfers to remove restrictions | <u>(635,849)</u> | <u>(634,922)</u> |
| Total change in endowment funds | <u>\$ 1,532,237</u> | <u>\$ 389,961</u> |

HAWAII PREPARATORY ACADEMY

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**For the Thirteen Months Ended June 30, 2024
(With Prior Year Comparative Information for the Year Ended May 31, 2023)**

NOTE L – IN-KIND CONTRIBUTIONS

In-kind contributions for the thirteen months ended June 30, 2024 and the year ended May 31, 2023 consisted of the following:

| | <u>2024</u> | <u>2023</u> |
|--|--------------------------|-------------------------|
| In-kind contributions | | |
| Investment securities | \$ 193,156 | \$ - |
| Artwork inventory | 78,010 | 50,073 |
| Property and equipment | 7,525 | 17,595 |
| Other in-kind contributions | <u>13,375</u> | <u>4,239</u> |
| Total in-kind contributions | <u>\$ 292,066</u> | <u>\$ 71,907</u> |
| In-kind contributions were classified as follows | | |
| With donor restriction | \$ 170,885 | \$ 53,192 |
| Without donor restriction | <u>121,181</u> | <u>18,715</u> |
| Total in-kind contributions | <u>\$ 292,066</u> | <u>\$ 71,907</u> |

NOTE M – SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental cash flow information for the thirteen months ended June 30, 2024 and the year ended May 31, 2023 consisted of the following:

| | <u>2024</u> | <u>2023</u> |
|--|-------------|-------------|
| Cash paid during the year for interest | \$ 82,865 | \$ 135,381 |
| Noncash operating activities | | |
| In-kind contributions of artwork inventory | \$ 78,010 | \$ 50,073 |
| Other in-kind contributions | \$ 13,375 | \$ 4,239 |
| Noncash investing activities | | |
| In-kind contributions of investment securities | \$ 193,156 | \$ - |
| In-kind contributions of property and equipment | \$ 7,525 | \$ 17,595 |
| Increase in accounts payable for additions to property and equipment | \$ 129,520 | \$ 21,392 |

HAWAII PREPARATORY ACADEMY

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**For the Thirteen Months Ended June 30, 2024
(With Prior Year Comparative Information for the Year Ended May 31, 2023)**

NOTE N – COMMITMENTS AND CONTINGENCIES

The Academy enters into contracts with various third parties related to its ongoing development projects and construction-in-progress. There were no significant contracts with unexpended balances at June 30, 2024 and May 31, 2023.

Contingencies

The Academy is subject to legal proceedings, claims, or litigation arising in the ordinary course of business for which it seeks the advice of legal counsel. Management estimates, on the advice of legal counsel, that the costs to resolve these matters will not be material to the financial statements. However, it is reasonably possible that such estimates may change within the near term.

The Academy operates in the State of Hawaii. Local, national, and international events can have severe, adverse effects on economic conditions in Hawaii. The effects on the financial statements of the Academy from such changes in economic conditions in Hawaii, if any, are not presently determinable.

NOTE O – SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 9, 2024, which is the date the financial statements were available to be issued, and determined that the Academy did not have any subsequent events requiring adjustment to the financial statements or disclosure in the notes to the financial statements.
