

Hawai'i Community Foundation

(A Nonprofit Organization)

Financial Statements

December 31, 2019 and 2018

Hawai'i Community Foundation
(A Nonprofit Organization)
Index

	Page(s)
Independent Auditor's Report	1-2
Financial Statements	
Statement of Assets, Liabilities and Net Assets December 31, 2019	3
Statement of Assets, Liabilities and Net Assets December 31, 2018	4
Statement of Revenues and Expenses and Changes in Net Assets Year Ended December 31, 2019	5
Statement of Revenues and Expenses and Changes in Net Assets Year Ended December 31, 2018	6
Statement of Functional Expenses Year Ended December 31, 2019	7
Statement of Functional Expenses Year Ended December 31, 2018	8
Notes to Financial Statements.....	9-28
Supplementary Information	
Schedule of Pooled Income Fund Investments December 31, 2019 and 2018	30
Schedule of Changes in Pooled Income Fund Investments Years Ended December 31, 2019 and 2018.....	31

Independent Auditor's Report

To the Board of Governors of
Hawai'i Community Foundation

Report on the Financial Statements

I have audited the accompanying financial statements of Hawai'i Community Foundation (the "Foundation"), which comprise the statements of assets, liabilities and net assets (modified cash basis) as of December 31, 2019 and 2018, and the related statements of revenues and expenses and changes in net assets (modified cash basis) and of functional expenses (modified cash basis) 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 the modified cash basis of accounting described in Note 1; 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

My responsibility is to express an opinion on these financial statements based on my audits. I conducted my audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and net assets of the Foundation as of December 31, 2019 and 2018, and its revenues, expenses and changes in net assets for the years then ended in accordance with the modified cash basis of accounting described in Note 1.

Basis of Accounting

I draw attention to Note 1 of the financial statements, which describes the basis of accounting. The 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. My opinion is not modified with respect to this matter.

Disclaimer of Opinion on Unaudited Information in the Notes to the Financial Statements

My audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The information regarding community grantmaking services presented in Note 18 of the financial statements, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I do not express an opinion or provide any assurance on it.

Other Matters - Supplementary Information

My audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The pooled income fund investments schedules on pages 30 and 31 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

James P. Hesselman, CPA, LLC

Honolulu, Hawai'i
August 14, 2020

Hawai'i Community Foundation

(A Nonprofit Organization)

Statement of Assets, Liabilities and Net Assets (Modified Cash Basis)

December 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Assets			
Cash and cash equivalents	\$ 213,668	\$ -	\$ 213,668
Investments, at fair value			
Combined investment funds	491,752,623	17,811,012	509,563,635
Money market mutual funds	51,919,731	2,879,552	54,799,283
Mutual funds	86,995,926	1,416,070	88,411,996
Common stocks	7,142,238	-	7,142,238
U.S. government bonds	15,530,528	-	15,530,528
Corporate bonds	17,965,367	-	17,965,367
Municipal bonds	2,997,395	-	2,997,395
Privately managed investment fund	1,723,221	-	1,723,221
Real estate limited partnerships	25,000	-	25,000
Total investments	<u>676,052,029</u>	<u>22,106,634</u>	<u>698,158,663</u>
Property and equipment, net	326,714	-	326,714
Other	248,921	-	248,921
Total assets	<u>\$ 676,841,332</u>	<u>\$ 22,106,634</u>	<u>\$ 698,947,966</u>
Liabilities and Net Assets			
Liabilities			
Contract funds held for			
Tobacco Fund	\$ 55,987,530	\$ -	\$ 55,987,530
Gift annuity liabilities	919,448	-	919,448
Funds held as agency endowments	5,843,833	-	5,843,833
Other	3,780	-	3,780
Total liabilities	<u>62,754,591</u>	<u>-</u>	<u>62,754,591</u>
Net assets			
Without donor restrictions	614,086,741	-	614,086,741
With donor restrictions	-	22,106,634	22,106,634
Total net assets	<u>614,086,741</u>	<u>22,106,634</u>	<u>636,193,375</u>
Total liabilities and net assets	<u>\$ 676,841,332</u>	<u>\$ 22,106,634</u>	<u>\$ 698,947,966</u>

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

Hawai'i Community Foundation

(A Nonprofit Organization)

Statement of Assets, Liabilities and Net Assets (Modified Cash Basis)

December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Assets			
Cash and cash equivalents	\$ 522,522	\$ -	\$ 522,522
Investments, at fair value			
Combined investment funds	409,134,759	12,227,791	421,362,550
Money market mutual funds	46,053,394	7,078,055	53,131,449
Mutual funds	60,174,605	725,634	60,900,239
Common stocks	5,801,627	-	5,801,627
U.S. government bonds	17,295,943	-	17,295,943
Corporate bonds	15,543,850	-	15,543,850
Municipal bonds	2,091,858	-	2,091,858
Privately managed investment fund	1,530,659	-	1,530,659
Real estate limited partnerships	100,000	-	100,000
Total investments	<u>557,726,695</u>	<u>20,031,480</u>	<u>577,758,175</u>
Property and equipment, net	329,960	-	329,960
Other	235,057	-	235,057
Total assets	<u>\$ 558,814,234</u>	<u>\$ 20,031,480</u>	<u>\$ 578,845,714</u>
Liabilities and Net Assets			
Liabilities			
Contract funds held for			
Tobacco Fund	\$ 49,901,460	\$ -	\$ 49,901,460
Gift annuity liabilities	964,985	-	964,985
Funds held as agency endowments	4,247,918	-	4,247,918
Other	103,755	-	103,755
Total liabilities	<u>55,218,118</u>	<u>-</u>	<u>55,218,118</u>
Net assets			
Without donor restrictions	503,596,116	-	503,596,116
With donor restrictions	-	20,031,480	20,031,480
Total net assets	<u>503,596,116</u>	<u>20,031,480</u>	<u>523,627,596</u>
Total liabilities and net assets	<u>\$ 558,814,234</u>	<u>\$ 20,031,480</u>	<u>\$ 578,845,714</u>

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

Hawai'i Community Foundation
(A Nonprofit Organization)
Statement of Revenues and Expenses and
Changes in Net Assets (Modified Cash Basis)
Year Ended December 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues			
Contributions available for grant making and programs	\$ 47,249,228	\$ 3,486,218	\$ 50,735,446
Contracts and grants – Tobacco Fund	3,544,756	-	3,544,756
Investment return expendable for grant making and operations	28,452,735	526,818	28,979,553
Income from perpetual trusts	2,887,430	480,912	3,368,342
Service and administrative fees	1,376,381	-	1,376,381
Net assets released from restrictions			
Satisfaction of program restrictions	7,065,193	(7,065,193)	-
Endowment payout policy appropriations	590,812	(590,812)	-
Other	109,946	-	109,946
Total revenues	<u>91,276,481</u>	<u>(3,162,057)</u>	<u>88,114,424</u>
Expenses			
Grants and scholarships	44,320,013	-	44,320,013
Grants – Tobacco Fund	2,832,109	-	2,832,109
Program services	5,684,890	-	5,684,890
Finance and administration	3,724,001	-	3,724,001
Charitable services and donor relations	3,626,248	-	3,626,248
Total expenses	<u>60,187,261</u>	<u>-</u>	<u>60,187,261</u>
Change in net assets from operating activities	31,089,220	(3,162,057)	27,927,163
Nonoperating activities			
Contributions designated for investment of principal	16,255,305	2,697,158	18,952,463
Investment return designated for reinvestment	63,175,399	2,598,009	65,773,408
Change in value of split-interest agreements	(29,299)	(57,956)	(87,255)
Total nonoperating activities	<u>79,401,405</u>	<u>5,237,211</u>	<u>84,638,616</u>
Total change in net assets	110,490,625	2,075,154	112,565,779
Net assets			
January 1, 2019	<u>503,596,116</u>	<u>20,031,480</u>	<u>523,627,596</u>
December 31, 2019	<u>\$ 614,086,741</u>	<u>\$ 22,106,634</u>	<u>\$ 636,193,375</u>

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

Hawai'i Community Foundation
(A Nonprofit Organization)
Statement of Revenues and Expenses and
Changes in Net Assets (Modified Cash Basis)
Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues			
Contributions available for grant making and programs	\$ 29,086,200	\$ 5,403,422	\$ 34,489,622
Contracts and grants – Tobacco Fund	2,085,599	-	2,085,599
Investment return expendable for grant making and operations	24,929,319	385,208	25,314,527
Income from perpetual trusts	2,682,052	471,137	3,153,189
Service and administrative fees	1,300,186	-	1,300,186
Net assets released from restrictions			
Satisfaction of program restrictions	3,807,493	(3,807,493)	-
Endowment payout policy appropriations	517,249	(517,249)	-
Other	148,173	81	148,254
Total revenues	<u>64,556,271</u>	<u>1,935,106</u>	<u>66,491,377</u>
Expenses			
Grants and scholarships	43,597,926	-	43,597,926
Grants – Tobacco Fund	1,973,724	-	1,973,724
Program services	4,852,126	-	4,852,126
Finance and administration	3,184,981	-	3,184,981
Charitable services and donor relations	4,161,742	-	4,161,742
Total expenses	<u>57,770,499</u>	<u>-</u>	<u>57,770,499</u>
Change in net assets from operating activities	6,785,772	1,935,106	8,720,878
Nonoperating activities			
Contributions designated for investment of principal	7,453,959	3,072,702	10,526,661
Investment return designated for reinvestment	(51,393,936)	(1,105,760)	(52,499,696)
Change in value of split-interest agreements	165,157	(57,029)	108,128
Total nonoperating activities	<u>(43,774,820)</u>	<u>1,909,913</u>	<u>(41,864,907)</u>
Total change in net assets	<u>(36,989,048)</u>	<u>3,845,019</u>	<u>(33,144,029)</u>
Net assets			
January 1, 2018	<u>540,585,164</u>	<u>16,186,461</u>	<u>556,771,625</u>
December 31, 2018	<u>\$ 503,596,116</u>	<u>\$ 20,031,480</u>	<u>\$ 523,627,596</u>

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

Hawai'i Community Foundation
(A Nonprofit Organization)
Statement of Functional Expenses (Modified Cash Basis)
Year Ended December 31, 2019

	Program Services	Finance and Administration	Charitable Services and Donor Relations	Total
Grants				
Grants and scholarships	\$ 44,320,013	\$ -	\$ -	\$ 44,320,013
Grants - Tobacco Fund	2,832,109	-	-	2,832,109
Total grants	<u>47,152,122</u>	<u>-</u>	<u>-</u>	<u>47,152,122</u>
Personnel expenses				
Salaries, wages, temporary personnel	2,028,326	2,020,557	2,113,441	6,162,324
Payroll taxes, benefits, other	<u>567,094</u>	<u>614,425</u>	<u>592,890</u>	<u>1,774,409</u>
Total personnel expenses	2,595,420	2,634,982	2,706,331	7,936,733
Consulting and professional fees	2,243,814	247,109	210,936	2,701,859
Occupancy	202,749	339,076	153,186	695,011
Conferences, meetings and events	292,593	44,820	178,297	515,710
Advertising	128,154	21,250	159,518	308,922
Information technology	5,576	210,822	1,250	217,648
Travel	35,137	30,742	43,716	109,595
Office expenses	30,668	47,112	27,464	105,244
Professional development and training	36,970	37,804	17,038	91,812
Printing and publication	6,242	9,587	51,577	67,406
Depreciation	17,466	22,207	6,589	46,262
Insurance	14,392	12,777	3,791	30,960
Other expenses	75,709	65,713	66,555	207,977
	<u>\$ 52,837,012</u>	<u>\$ 3,724,001</u>	<u>\$ 3,626,248</u>	<u>\$ 60,187,261</u>

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

Hawai'i Community Foundation
(A Nonprofit Organization)
Statement of Functional Expenses (Modified Cash Basis)
Year Ended December 31, 2018

	Program Services	Finance and Administration	Charitable Services and Donor Relations	Total
Grants				
Grants and scholarships	\$ 43,597,926	\$ -	\$ -	\$ 43,597,926
Grants - Tobacco Fund	1,973,724	-	-	1,973,724
Total grants	<u>45,571,650</u>	<u>-</u>	<u>-</u>	<u>45,571,650</u>
Personnel expenses				
Salaries, wages, temporary personnel	2,130,967	1,619,820	2,213,709	5,964,496
Payroll taxes, benefits, other	586,231	499,807	672,524	1,758,562
Total personnel expenses	<u>2,717,198</u>	<u>2,119,627</u>	<u>2,886,233</u>	<u>7,723,058</u>
Consulting and professional fees	1,330,828	295,979	370,146	1,996,953
Occupancy	224,434	334,132	137,601	696,167
Conferences, meetings and events	293,503	38,825	289,963	622,291
Advertising	14,369	-	204,581	218,950
Information technology	4,210	191,531	11,584	207,325
Professional development and training	62,660	35,576	42,257	140,493
Travel	29,540	26,292	70,808	126,640
Printing and publication	46,931	11,397	58,784	117,112
Office expenses	31,381	43,032	33,501	107,914
Depreciation	24,104	29,179	7,672	60,955
Insurance	14,013	13,737	3,612	31,362
Other expenses	58,955	45,674	45,000	149,629
	<u>\$ 50,423,776</u>	<u>\$ 3,184,981</u>	<u>\$ 4,161,742</u>	<u>\$ 57,770,499</u>

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

Hawai'i Community Foundation
(A Nonprofit Organization)
Notes to Financial Statements
December 31, 2019 and 2018

1. Organization and Summary of Significant Accounting Policies

Hawai'i Community Foundation (the "Foundation") is a statewide public community foundation. Its mission is to help people make a difference by inspiring the spirit of giving, and by investing in people and solutions to benefit every island community. The significant accounting policies followed are described below.

Basis of Accounting

The Foundation's policy is to prepare its financial statements on the basis of cash receipts and disbursements, except that investments are carried at fair value, major property items are capitalized, noncash gifts and bequests are recorded at fair value at the date received, and changes in the fair value of investments and depreciation expense are included in the Statement of Revenues and Expenses and Changes in Net Assets (modified cash basis). Accordingly, the accompanying financial statements are not intended to present financial position and changes in net assets in conformity with accounting principles generally accepted in the United States of America (i.e., "GAAP").

Some of the more significant differences between GAAP accounting and the Foundation's modified cash basis of accounting include: contribution income under GAAP is recorded when an irrevocable pledge is received rather than when the cash is received; service and administrative fees under GAAP are recognized as earned (as performance obligations are settled) rather than when cash is received; grants expense under GAAP is recorded when a binding commitment to disburse funds is communicated to the grant recipient, rather than when the cash is disbursed; a financial interest in an irrevocable trust under GAAP is recorded when an entity is named as the remainder interest beneficiary, rather than when the gift is received; and assets held in trust by others are recognized under GAAP in the Statement of Assets, Liabilities and Net Assets based on the fair value of such assets, but are not recognized under the modified cash basis of accounting until transferred to the Foundation. Additionally, the financial statements of supporting organizations over which the Foundation has control are not consolidated into the Foundation's financial statements; and a Statement of Cash Flows is not presented under the modified cash basis of accounting.

New Accounting Pronouncements

In 2019, the Foundation implemented Accounting Standards Update ("ASU") 2014-09 *Revenue from Contracts with Customers*, and ASU 2018-08 *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. The implementation of these new standards did not have a significant effect on the Foundation's financial statements.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements 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. Actual results could differ from those estimates.

Risks and Uncertainties

The Foundation invests in or holds a variety of investment vehicles, including common stock, corporate and governmental obligations, mutual funds, and investment partnerships. These investments are exposed to interest rate, market, credit and other risks depending on the nature of

Hawai'i Community Foundation
(A Nonprofit Organization)
Notes to Financial Statements
December 31, 2019 and 2018

the specific investment. Accordingly, it is at least reasonably possible that these factors will result in changes in the value of the Foundation's investments, which could materially affect amounts reported in the financial statements.

Measure of Operations

In the Statement of Revenues and Expenses and Changes in Net Assets, the Foundation includes in its definition of operations all revenues and expenses except for contributions designated for investment of principal and any associated releases of restrictions thereon, investment income designated for reinvestment, and changes in value of split-interest agreements.

Cash and Cash Equivalents

The Foundation considers all highly liquid debt investments with original maturities of three months or less when purchased to be cash equivalents, except for cash management funds maintained in the investment portfolio. The Foundation maintains its cash and cash equivalent balances with a high credit quality bank in Honolulu. Balances are secured by the Federal Deposit Insurance Corporation up to \$250,000. The Foundation's balances are generally in excess of federally insured limits. Management believes the Foundation is not exposed to any significant credit risk with respect to its cash balances.

Investments

Investments are reported at fair value. Where applicable, investments are stated at net asset value (or its equivalent) as a practical expedient to fair value. Fair value is the price that would be received to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date. See Note 4 for a discussion of fair value measurements.

Certain trust form component funds are placed in investment trust accounts called combined investment funds. The investment trust accounts are operated using the "market value unit method." Under this method, each component fund within the combined investment funds is assigned a number of units based upon the relationship of the market value of the funds' investments to all the combined investment funds' investments at the time of entry into the investment accounts. Combined investment funds earnings are allocated and distributed to participating funds based on their respective units in the accounts.

Certain corporate form component funds are also combined for investment management purposes in combined investment funds. Monthly investment earnings are allocated and distributed to participating funds based on average daily balances.

The primary investment objective of the combined investment funds is to provide for long term growth of capital and earnings without undue exposure to risk. The combined investment funds are also invested to preserve the real value (after inflation) of its assets while providing maximum earnings for grantmaking. The investment and payout policies work together to achieve this objective. Investment guidelines provide for a total rate of return net of fees, and define asset allocation targets and ranges, with an emphasis on equity based investments. Investment performance is measured on both an absolute and relative basis compared to a targeted composite index.

Hawai'i Community Foundation
(A Nonprofit Organization)
Notes to Financial Statements
December 31, 2019 and 2018

Payout Policy

The Foundation adheres to a payout policy in order to preserve the growth of its endowment assets and to ensure that the Foundation has a steady and growing stream of earnings to meet community needs.

The payout that the Foundation distributes from the combined investment funds to each participating component fund for grants and program expenses is calculated by multiplying a fixed percentage by a base. The fixed percentage is reviewed periodically in light of evolving trends with respect to investment returns and the rate of inflation. The Foundation's payout percentage factor was 4% in 2019 and 2018. However, if the market value of a component fund drops below the contributions to the principal, then the payout percentage factor is reduced to 2%. Additionally, administrative service fees are paid to the Foundation from the combined investment funds to provide for the cost of administration.

The base is a 48-month rolling average market value of the respective participating component fund. Computation of the payout is made annually.

To the extent the payout exceeds interest and dividend income for the period, it is made from accumulated realized and/or unrealized gains.

Property and Equipment

Property and equipment is stated at cost if purchased or fair value if donated at the date received. Items purchased with a cost in excess of \$500 and a useful life exceeding one year are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of such property (5 to 7 years), or lease term, if shorter. Gains or losses from the disposition of property and equipment are included in current operations.

Fund Management

To ensure observation of limitations and restrictions placed on the use of resources available to the Foundation, the accounts of the Foundation are managed as individual charitable funds, according to their nature and purpose. The Foundation's funds are as follows:

Operating Fund

The operating fund includes service fees, grants, contributions, and other revenues used to support the operating expenses of the Foundation.

Board Discretionary Funds

The board discretionary funds include contributions from donors who do not place any restrictions on their gifts, with the intention that the payout be used for general charitable purposes. Principal contributions are generally invested in perpetuity under the Foundation's Declaration of Trust. The Board of Governors determines how the payout is to be distributed.

Designated, Donor Advised, and Field of Interest Funds

The designated, donor advised, and field of interest funds include contributions from donors who indicate a field of charitable endeavor to which the payout is to be directed, who name specific charities to be income recipients, or who describe a group of individuals on whose behalf funds are to be expended. Principal contributions are generally invested in perpetuity under the Foundation's Declaration of Trust. Because of the Board of Governor's power to modify any restriction or

Hawai'i Community Foundation
(A Nonprofit Organization)
Notes to Financial Statements
December 31, 2019 and 2018

condition in the distribution of funds, the amounts in these funds have been classified as without donor restrictions in the accompanying financial statements.

Pooled Income Fund

The pooled income fund was created to increase the endowment assets of the Foundation and to promote support to community charities. Donors contribute to the Foundation and receive income for life. Generally, at a donor's death, the residue of the gift is transferred to establish a board discretionary or designated fund, and earnings thereafter are distributed in accordance with the donor's instructions given at the time of the gift. The pooled income fund is considered donor restricted until, at the time of a donor's death, the funds are transferred to establish a board discretionary, designated, donor advised, or field of interest (component) fund of the Foundation.

Gift Annuities

The Foundation has entered into several charitable gift annuities whereby the Foundation has received a transfer of assets from a donor and is obligated to pay the donor quarterly payments for the remainder of their lifetime. Upon death of the donor, the agreements generally stipulate that a portion of the residual balance be paid out to specified beneficiary organizations and the balance shall be retained by the Foundation. Contribution revenue from gift annuities is recognized at the date assets are received, net of gift annuity liabilities recorded. Gift annuity liabilities pertain to the Foundation's liability to the primary donor, based on the present value of payments to be made to the donor over their estimated remaining lifetime, and to the specified beneficiary organization based on their percentage interest in any residual net asset. The present value of payments to be made to the primary donors is calculated annually based on published mortality tables and discount rates ranging from 1.8% to 7.6%.

Classification of Net Assets

Financial statements of not-for-profit organizations measure aggregate net assets based on the absence or existence of donor-imposed restrictions. To meet this objective net assets are classified as follows:

Net Assets Without Donor Restrictions - Net assets that are available for use in general operations and not subject to donor or grantor restrictions.

GAAP provides that if the governing body of an organization has the ability to modify a donor restriction or condition (i.e. variance power), the contribution should be classified as without donor restrictions. The Foundation's variance power is promulgated in its By-Laws, Declarations of Trust and gift instruments. Accordingly, all net assets and related activity over which the Foundation maintains variance power are classified as without donor restrictions in the Foundation's financial statements. Despite this classification, the Foundation's policies and procedures for administering its charitable funds are to always follow the donor's intent as closely as possible.

Designations of net assets without donor restrictions have been made by the governing board to earmark certain net assets for long-term investment or to acknowledge donor intentions.

Net Assets With Donor Restrictions - Net assets subject to donor or grantor imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions could be

Hawai'i Community Foundation
(A Nonprofit Organization)
Notes to Financial Statements
December 31, 2019 and 2018

perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both; or in the case of unspent endowment earnings, when such earnings have been appropriated for expenditure under the Foundation's payout policy. The Foundation's net assets with donor restrictions represent net assets over which the Foundation's variance power does not apply, and includes perpetual endowments and the unspent earnings thereon; special purpose funds; a pooled income fund; and charitable gift annuities that must be invested pursuant to State law.

Fair Value of Financial Instruments

Investments are recorded at fair value as described above and in Note 4. The carrying amount of cash approximates fair value due to its short term nature. Funds held for other organizations and funds held as agency endowments are recorded at the fair values of the corresponding assets. Gift annuity liabilities are carried at the present value of the total future payments to annuitants and beneficiaries, based on discount rates in effect at the date of the gift.

Functional Allocation of Expenses

The costs of providing the Foundation's programs and other services have been summarized on a functional basis in the Statement of Revenues and Expenses and Changes in Net Assets. The Statements of Functional Expenses present the natural classification detail of expenses by function. Where applicable, costs that are readily identifiable to a function are directly charged to that function. Other costs have been allocated among the programs and supporting services benefited. Allocation methods are primarily based on management estimates of time spent by personnel working across functions.

Program services represent those costs associated with evaluating, recommending and monitoring applications, grants and programs. Finance and administration represents those costs associated with operational management, oversight of the Foundation's policies and procedures, and management of the Foundation's investment portfolio. Charitable services and donor relations, represent fundraising costs associated with communicating and assisting the general public along with potential and existing donors regarding the most effective ways to meet their charitable giving goals.

Advertising Costs

Advertising costs are charged to expense as incurred and are nominal.

Income Taxes

The Foundation has received a determination from the Internal Revenue Service that its stated purpose is tax-exempt under Section 501(c)(3) of the Internal Revenue Code. Accordingly, the Foundation is exempt from federal and state income and excise taxes, except on unrelated business income.

Management believes the Foundation's tax years prior to 2016 are no longer subject to examination by the Internal Revenue Service. Management is not aware of any significant uncertain tax positions taken on previously filed tax returns.

Hawai'i Community Foundation
(A Nonprofit Organization)
Notes to Financial Statements
December 31, 2019 and 2018

2. Liquidity and Funds Available

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the Foundation's year end comprise the following:

	2019	2018
Cash	\$ 213,668	\$ 522,522
Investments		
Operating fund	7,695,154	6,220,030
Unrestricted, non-endowed	96,248,167	67,111,927
Unrestricted, designated by board for endowment		
Amounts previously appropriated for expenditure	28,500,836	25,218,816
Appropriated for expenditure in coming year	21,801,174	20,676,046
Other	48,460	28,929
	<u>\$ 154,507,459</u>	<u>\$ 119,778,270</u>

The Foundation's board-designated endowments are subject to the Foundation's payout policy as described in Note 1. Although the Foundation does not intend to spend from board-designated endowments (other than amounts appropriated for general expenditure as part of the Foundation's annual budget approval and appropriation), these amounts could be made available if necessary.

Amounts associated with donor-restricted gifts, both endowed and non-endowed, are not available for general expenditure, with the exception of donor endowments that stipulate that earnings from permanent endowments may be spent for general operating purposes.

As part of its liquidity management plan, the Foundation invests operating funds in excess of daily requirements in money market funds and mutual funds.

3. Contributions

Contributions for the years ended December 31, 2019 and 2018 consisted of the following:

	2019	2018
Contributions to principal	\$ 18,952,463	\$ 10,526,661
Contributions to income	50,735,446	34,489,622
	<u>\$ 69,687,909</u>	<u>\$ 45,016,283</u>

In 2019, thirteen donors made contributions of \$1 million or more, aggregating approximately \$51 million. In 2018, eight donors made contributions of \$1 million or more, aggregating approximately \$25 million.

Hawai'i Community Foundation
(A Nonprofit Organization)
Notes to Financial Statements
December 31, 2019 and 2018

Contributions to principal are gifts intended to be invested in perpetuity. Distributions from these gifts are disbursed as grants or program expenditures to support charitable endeavors as provided in the payout policy.

Contributions to income consist of gifts intended to be paid out in their entirety as charitable grants and are available for use immediately.

4. Fair Value Measurements

Generally accepted accounting principles provide a framework for establishing fair value measurements. That framework provides a fair value hierarchy for inputs used in measuring fair market value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on the best information available in the circumstances.

This fair value hierarchy consists of three broad levels:

- Level 1 inputs consist of unadjusted quoted prices in active markets such as stock exchanges for identical assets and have the highest priority;
- Level 2 inputs consist of significant other observable inputs such as quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset and liability, either directly or indirectly, for substantially the full term of the financial instrument;
- Level 3 inputs consist of significant unobservable inputs and include situations where there is little, if any, market activity for the investment. The inputs require significant judgment or estimates, such as those associated with discounted cash flow methodologies.

Additionally, certain investments, such as the Foundation's investment in a privately managed equity fund, fall outside of the FASB's fair value hierarchy and are instead valued at net asset value (or its equivalent) as a practical expedient.

When available, the Foundation measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. There were no changes in the fair value methodologies used at December 31, 2019 and 2018.

Hawai'i Community Foundation
(A Nonprofit Organization)
Notes to Financial Statements
December 31, 2019 and 2018

Fair values of assets measured on a recurring basis are as follows as of December 31, 2019:

December 31, 2019	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs Other Than Active Markets (Level 2)	Significant Unobservable Inputs (Level 3)
Common stock				
Basic materials	\$ 310,297	\$ 310,297	\$ -	\$ -
Capital goods	1,071,787	1,071,787	-	-
Communication services	846,863	846,863	-	-
Consumer goods	1,447,883	1,447,883	-	-
Energy	470,238	470,238	-	-
Financials	2,271,151	1,565,651	705,500	-
Health care	1,529,277	1,529,277	-	-
Technology	2,060,761	2,060,761	-	-
Utilities	197,475	197,475	-	-
Other	111,160	111,160	-	-
Total common stock	<u>10,316,892</u>			
Mutual and Other Funds				
Large cap	250,403,964	250,403,964	-	-
Mid cap	129,159	129,159	-	-
Small cap	13,827,106	13,827,106	-	-
Emerging markets	1,082,384	1,082,384	-	-
International	116,010,332	116,010,332	-	-
Fixed income	109,221,204	109,221,204	-	-
Total mutual/other funds	<u>490,674,149</u>			
Money market mutual funds	70,262,771	70,262,771	-	-
U.S. Treasury bonds	26,409,409	-	26,409,409	-
U.S. Gov't agency securities	25,526,372	-	25,526,372	-
Corporate bonds	61,955,921	-	61,955,921	-
Municipal bonds	9,370,903	-	9,370,903	-
Mortgage-backed securities	1,894,025	-	1,894,025	-
Privately managed equity fund (a)	1,723,221	-	-	-
Real estate limited partnerships	25,000	-	-	25,000
Total	<u>\$ 698,158,663</u>	<u>\$ 570,548,312</u>	<u>\$ 125,862,130</u>	<u>\$ 25,000</u>

Hawai'i Community Foundation
(A Nonprofit Organization)
Notes to Financial Statements
December 31, 2019 and 2018

Fair values of assets measured on a recurring basis are as follows as of December 31, 2018:

December 31, 2018	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs Other Than Active Markets (Level 2)	Significant Unobservable Inputs (Level 3)
Common stock				
Basic materials	\$ 188,213	\$ 188,213	\$ -	\$ -
Capital goods	961,494	961,494	-	-
Communication services	534,209	534,209	-	-
Consumer goods	1,488,125	1,488,125	-	-
Energy	473,627	473,627	-	-
Financials	2,336,497	1,511,997	824,500	-
Health care	1,180,024	1,180,024	-	-
Technology	2,035,299	2,035,299	-	-
Utilities	139,170	139,170	-	-
Other	153,743	153,743	-	-
Total common stock	<u>9,490,401</u>			
Mutual and Other Funds				
Large cap	198,715,858	198,715,858	-	-
Mid cap	157,670	157,670	-	-
Small cap	12,883,519	12,883,519	-	-
Emerging markets	816,253	816,253	-	-
International	91,570,129	91,570,129	-	-
Fixed income	80,903,843	80,903,843	-	-
Total mutual/other funds	<u>385,047,272</u>			
Money market mutual funds	67,267,403	67,267,403	-	-
U.S. Treasury bonds	27,147,730	-	27,147,730	-
U.S. Gov't agency securities	21,689,691	-	21,689,691	-
Corporate bonds	54,665,739	-	54,665,739	-
Municipal bonds	8,935,703	-	8,935,703	-
Mortgage-backed securities	1,883,577	-	1,883,577	-
Privately managed equity fund (a)	1,530,659	-	-	-
Real estate limited partnerships	100,000	-	-	100,000
Total	<u>\$ 577,758,175</u>	<u>\$ 460,980,576</u>	<u>\$ 115,146,940</u>	<u>\$ 100,000</u>

(a) - Investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy and thus are not assigned to Levels 1, 2 or 3.

Investments in corporate bonds are investment grade and diversified among multiple industry sectors, primarily with U.S. based issuers. Investment in privately managed investment fund is in a limited partnership that invests substantially all of its investable assets in a master investment fund related to the limited partnership. The master fund invests primarily in privately managed investment funds with investment strategies that include long and short positions, distressed debt, event driven, arbitrage and emerging markets, with geographic emphasis on both U.S. and global

Hawai'i Community Foundation
(A Nonprofit Organization)
Notes to Financial Statements
December 31, 2019 and 2018

markets. The Foundation may make semi-annual withdrawals with 90 days written notice. There are no unfulfilled capital commitments with respect to this investment.

Following is a description of the valuation methodologies used for assets at fair value.

Common stock: Valued at the closing price reported on active stock exchanges if publicly traded; otherwise valued based on third party appraisal which uses significant observable inputs including offering price of similar classes of stock of the same issuer.

Money market, mutual and exchange traded funds: Valued at the closing price reported on active stock exchanges.

Corporate bonds, U.S. government and municipal obligations: Valued primarily by pricing models that incorporate available trade, bid and other market information.

Mortgage-backed securities: This asset group consists of collateralized mortgage obligations and mortgage pass-thru pools. The securities are valued by pricing models that incorporate available trade, bid and other market information.

Privately managed equity fund: Valued at partner's capital, as reported by the investment manager, which represents redemption value.

Real estate limited partnerships: The underlying real estate assets of each partnership were sold in 2018 and both partnerships are in the process of liquidating. Asset values represent estimated distributions receivable from the partnerships as reported by the general partners.

Additional Disclosures for Level 3 investments:

	Real Estate Limited Partnerships
December 31, 2018	
Beginning balance	\$ 34,050,000
Gains or losses (realized and unrealized) included in changes in net assets	747,000
Distribution of partnership gain	<u>(34,697,000)</u>
Ending balance	<u>\$ 100,000</u>
December 31, 2019	
Beginning balance	\$ 100,000
Gains or losses (realized and unrealized) included in changes in net assets	119,346
Distribution of partnership gain	<u>(194,346)</u>
Ending balance	<u>\$ 25,000</u>

Hawai'i Community Foundation
(A Nonprofit Organization)
Notes to Financial Statements
December 31, 2019 and 2018

5. Investments

The Foundation's investments at December 31, 2019 and 2018 were as follows:

	2019	2018
Combined investment funds		
Common stock	\$ 3,174,654	\$ 3,688,774
U.S. Treasury and other government agencies	36,405,253	31,541,478
Corporate bonds	43,990,554	39,121,889
Municipal bonds	6,373,508	6,843,845
Mutual and other funds	402,262,153	324,147,033
Money market mutual funds	15,463,488	14,135,954
Mortgage-backed securities	1,894,025	1,883,577
Total combined investment funds	<u>509,563,635</u>	<u>421,362,550</u>
Money market mutual funds	54,799,283	53,131,449
Mutual funds	88,411,996	60,900,239
Common stock	7,142,238	5,801,627
U.S. Treasury and other agency bonds	15,530,528	17,295,943
Corporate bonds	17,965,367	15,543,850
Municipal bonds	2,997,395	2,091,858
Privately managed investment fund	1,723,221	1,530,659
Real estate limited partnerships	25,000	100,000
	<u>\$ 698,158,663</u>	<u>\$ 577,758,175</u>

6. Property and Equipment

Property and equipment at December 31, 2019 and 2018 consisted of the following:

	2019	2018
Equipment	\$ 931,256	\$ 937,925
Furniture and fixtures	109,660	106,210
Software	492,297	492,297
Property used for program purposes	129,100	129,100
Leasehold improvements	57,529	53,389
Automobile	10,200	10,200
	<u>1,730,042</u>	<u>1,729,121</u>
Less: Accumulated depreciation and amortization	<u>1,503,789</u>	<u>1,499,622</u>
	226,253	229,499
Artwork	100,461	100,461
	<u>\$ 326,714</u>	<u>\$ 329,960</u>

Depreciation and amortization expense was \$46,262 and \$60,955 in 2019 and 2018, respectively.

Hawai'i Community Foundation
(A Nonprofit Organization)
Notes to Financial Statements
December 31, 2019 and 2018

7. Perpetual Trusts and Supporting Organizations

The Foundation is a beneficiary of income from assets held in perpetual trust by other organizations. The three most significant of these trusts are the Robert E. Black Memorial Trust (the "Black Trust"), the Prisanlee Trust, and the Parker Ranch Foundation Trust.

The Foundation is an income beneficiary of 70% of the income of the Black Trust, a supporting organization of the type described in Section 509(a)(3) of the Internal Revenue Code. At December 31, 2019, the fair value of the Black Trust's assets, which consists of marketable securities, was approximately \$57,546,000; the Foundation's 70% interest was approximately \$40,282,000. At December 31, 2018, the fair value of the Black Trust's assets was approximately \$49,147,000; the Foundation's 70% interest was approximately \$34,403,000.

The Foundation is an income beneficiary of 100% of the income of the Prisanlee Trust, a supporting organization, 27% of which is distributed to specific organizations. At December 31, 2019 and 2018, the fair value of the Prisanlee Trust's assets, which consists of marketable securities, was approximately \$15,423,000 and \$13,277,000 respectively.

The Foundation is an income beneficiary of 20% of the income of the Parker Ranch Foundation Trust. At December 31, 2019, the audited book value of the Parker Ranch Foundation Trust's net assets, which consists of real property, investments, inventories and other assets, net of liabilities, was approximately \$253,159,000; the Foundation's 20% interest was approximately \$50,632,000. At December 31, 2018, the audited book value of the Parker Ranch Foundation Trust's net assets was approximately \$215,724,000; the Foundation's 20% interest was approximately \$43,145,000.

In 2012, the Foundation participated in the formation of Hawai'i Leadership Forum ("HLF"), a nonprofit organization formed to serve as a supporting organization to the Foundation with a focus on creating and operating leadership programs for individuals in the State of Hawai'i. The majority of HLF's directors are appointed by the Board of Governors of the Foundation. In 2019 and 2018, the Foundation made grants to HLF amounting to \$2,579,000 and \$2,177,500, respectively.

The Foundation's interests in these perpetual trusts and supporting organizations are not included in the accompanying modified cash basis financial statements.

Income from perpetual trusts for 2019 and 2018 consisted of the following:

Constituent	Fund	2019	2018
Robert E. Black Memorial Trust	Robert E. Black	\$ 1,610,000	\$ 1,470,000
Parker Ranch Foundation Trust	Richard Smart	480,912	471,137
Prisanlee Trust	Prisanlee	712,328	671,705
Wodehouse Trust	Hawaii Children's Trust	453,108	430,736
Other	various	111,994	109,611
		<u>\$ 3,368,342</u>	<u>\$ 3,153,189</u>

Hawai'i Community Foundation
(A Nonprofit Organization)
Notes to Financial Statements
December 31, 2019 and 2018

8. Tobacco Prevention and Control Trust Fund

The Foundation is party to a contract with the State of Hawai'i, Department of Health (the "State"), to be the primary administrator for the Tobacco Prevention and Control Trust Fund (the "Tobacco Fund"). This task involves oversight of investment management and performance of the funds held and the selecting and supporting of programmatic initiatives aimed at delivering direct services associated with tobacco prevention and control. Amounts held by the Foundation are refundable to the State should the State choose to terminate this contract. Such amounts are recorded as contract funds held for Tobacco Fund in the Statement of Assets, Liabilities and Net Assets.

Pursuant to the contract with the State, it is the Foundation's responsibility to make grant disbursements based on general guidelines established by the State and other parties. Accordingly, grant disbursements are generally accounted for as exchange transactions and reflected as disbursements in the Statement of Revenues and Expenses and Changes in Net Assets. To the extent that grant disbursements are made pursuant to direction by the State or its agents, such disbursements are accounted for as agency transactions.

At December 31, 2019 and 2018, the Foundation held amounts of \$55,987,530 and \$49,901,460, respectively, related to the Tobacco Fund. As allowed under the agreement with the State, these amounts are invested in money market and other mutual funds, corporate and government bonds, and domestic and international equities.

9. Charitable Gift Annuities

Assets and liabilities associated with charitable gift annuities at December 31, 2019 and 2018 were:

	2019	2018
Assets	\$ 1,296,475	\$ 1,221,998
Liabilities	<u>919,448</u>	<u>964,985</u>
Net assets	<u>\$ 377,027</u>	<u>\$ 257,013</u>
Composition of net assets (deficit)		
Without donor restrictions	\$ (233,916)	\$ (238,948)
With donor restrictions	<u>610,943</u>	<u>495,961</u>
	<u>\$ 377,027</u>	<u>\$ 257,013</u>

Assets are carried at fair market value and consist primarily of mutual and money market funds. Net assets in a deficit position represent contracts whose liabilities exceed the related assets.

As required by State law, the Foundation must maintain assets equal to the sum of its reserves on its outstanding annuity agreements, plus a surplus of ten percent of the reserves or \$100,000 whichever is higher. The Foundation has designated specific assets to meet this reserve requirement.

Hawai'i Community Foundation
(A Nonprofit Organization)
Notes to Financial Statements
December 31, 2019 and 2018

10. Leases

The Foundation has several noncancelable operating leases for office space, expiring at various dates through November 2024. The future minimum rental payments for these leases are as follows:

Years ending	
2020	\$ 339,800
2021	65,500
2022	50,400
2023	52,800
2024	50,600
	<u>\$ 559,100</u>

Rental expense for the years ended December 31, 2019 and 2018 was \$514,069 and \$529,779, respectively.

11. Funds Held As Agency Endowments

Agency endowments represent endowment funds established by unaffiliated nonprofit organizations for their own benefit with the Foundation. At December 31, 2019 and 2018, agency endowment funds had a combined value of \$5,843,833 and \$4,247,918, respectively.

The following table summarizes the activity in these funds for the years ended December 31, 2019 and 2018:

Funds held as agency endowments, January 1, 2018	\$ 4,302,942
Amounts raised	393,862
Investment income	102,806
Net depreciation of investments	(331,835)
Grants	(158,832)
Other	(61,025)
Funds held as agency endowments, December 31, 2018	<u>4,247,918</u>
Amounts raised	968,672
Investment income	122,120
Net appreciation of investments	747,715
Grants	(194,353)
Other	(48,239)
Funds held as agency endowments, December 31, 2019	<u>\$ 5,843,833</u>

Hawai'i Community Foundation
(A Nonprofit Organization)
Notes to Financial Statements
December 31, 2019 and 2018

12. Service and Administrative Fees

The Foundation's operating fund receives fees from its board discretionary, designated, donor advised, and field of interest funds, and from other foundations and organizations for performing certain philanthropic service and administrative functions.

Service and administrative fees for the years ended December 31, 2019 and 2018 presented in the accompanying Statement of Revenues and Expenses and Changes in Net Assets exclude fees from its board discretionary, designated, donor advised and field of interest funds, as follows:

	2019	2018
Total service and administrative fees	\$ 9,402,617	\$ 8,874,987
Less: Fees received from board discretionary, designated, donor advised, and field of interest funds	<u>8,026,236</u>	<u>7,574,801</u>
Service and administrative fees from third parties	<u>\$ 1,376,381</u>	<u>\$ 1,300,186</u>

13. Operating Fund

The following table summarizes the activity in the operating fund for the years ended December 31, 2019 and 2018:

	2019	2018
Revenues		
Service and administrative fees	\$ 9,402,617	\$ 8,874,987
Interest and dividends	168,053	149,659
Contributions	235,212	567,596
Investment gains (losses) and other income	<u>1,062,691</u>	<u>(544,589)</u>
Total revenues	10,868,573	9,047,653
Expenses		
Finance and administration	3,724,001	3,184,981
Program services	3,093,782	3,168,812
Charitable services and donor relations	<u>3,626,248</u>	<u>4,161,742</u>
Total expenses	10,444,031	10,515,535
Change in net assets before transfers from other funds	424,542	(1,467,882)
Transfers from other funds	<u>759,070</u>	<u>864,030</u>
Total change in net assets	1,183,612	(603,852)
Net assets		
Beginning of year	<u>6,999,807</u>	<u>7,603,659</u>
End of year	<u>\$ 8,183,419</u>	<u>\$ 6,999,807</u>

Hawai'i Community Foundation
(A Nonprofit Organization)
Notes to Financial Statements
December 31, 2019 and 2018

14. Net Assets

The Foundation manages many of its funds as endowed funds in accordance with donor preferences regardless of GAAP classification. Endowed funds are perpetual in nature and include both the original donor gift and any unspent investment earnings thereon. Annual expenditures from endowment funds are generally limited by the Foundation's payout policy. The Foundation classifies its net assets as follows:

As of December 31, 2019	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Funds			
Board-designated endowments			
Board discretionary funds	\$ 27,209,523	\$ -	\$ 27,209,523
Designated or restricted	186,260,798	5,982,109	192,242,907
Donor advised, advisory board and field of interest	295,479,334	-	295,479,334
Donor-restricted endowments			
Unrestricted	-	559,342	559,342
Social programs	-	9,686,755	9,686,755
Subtotal endowment funds	<u>508,949,655</u>	<u>16,228,206</u>	<u>525,177,861</u>
Non-Endowment Funds			
Operating fund	8,183,419	-	8,183,419
Designated, donor advised, advisory board and field of interest	96,953,667	-	96,953,667
Restricted for social programs	-	5,210,954	5,210,954
Pooled income funds	-	31,652	31,652
Gift annuities	-	610,943	610,943
Special projects	-	24,879	24,879
Subtotal non-endowment funds	<u>105,137,086</u>	<u>5,878,428</u>	<u>111,015,514</u>
Total net assets	<u>\$ 614,086,741</u>	<u>\$ 22,106,634</u>	<u>\$ 636,193,375</u>

Hawai'i Community Foundation
(A Nonprofit Organization)
Notes to Financial Statements
December 31, 2019 and 2018

As of December 31, 2018	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Funds			
Board-designated endowments			
Board discretionary funds	\$ 29,211,828	\$ -	\$ 29,211,828
Designated or restricted	145,720,102	2,623,470	148,343,572
Donor advised, advisory board and field of interest	253,727,952	-	253,727,952
Donor-restricted endowments			
Unrestricted	-	503,210	503,210
Social programs	-	8,719,472	8,719,472
Subtotal endowment funds	<u>428,659,882</u>	<u>11,846,152</u>	<u>440,506,034</u>
Non-Endowment Funds			
Operating fund	6,999,807	-	6,999,807
Designated, donor advised, advisory board and field of interest	67,936,427	-	67,936,427
Restricted for social programs	-	7,634,385	7,634,385
Pooled income funds	-	30,103	30,103
Gift annuities	-	495,961	495,961
Special projects	-	24,879	24,879
Subtotal non-endowment funds	<u>74,936,234</u>	<u>8,185,328</u>	<u>83,121,562</u>
Total net assets	<u>\$ 503,596,116</u>	<u>\$ 20,031,480</u>	<u>\$ 523,627,596</u>

Changes in endowment net assets for the years ending December 31, 2019 and 2018 were as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Net Assets			
January 1, 2018	\$ 465,675,724	\$ 10,205,187	\$ 475,880,911
Investment return, net	(30,053,394)	(1,671,488)	(31,724,882)
Contributions	9,364,537	3,829,702	13,194,239
Amounts appropriated for expenditure	(15,217,591)	(517,249)	(15,734,840)
Other changes	(1,109,394)	-	(1,109,394)
December 31, 2018	<u>428,659,882</u>	<u>11,846,152</u>	<u>440,506,034</u>
Investment return, net	78,463,895	2,486,394	80,950,289
Contributions	19,758,662	2,702,408	22,461,070
Amounts appropriated for expenditure	(18,049,339)	(590,812)	(18,640,151)
Other changes	116,555	(215,936)	(99,381)
December 31, 2019	<u>\$ 508,949,655</u>	<u>\$ 16,228,206</u>	<u>\$ 525,177,861</u>

Hawai'i Community Foundation
(A Nonprofit Organization)
Notes to Financial Statements
December 31, 2019 and 2018

Interpretation of SPMIFA

The Board of Governors of the Foundation, in consultation with legal counsel, has determined that the Foundation is not subject to the State's Uniform Prudent Management of Institutional Funds Act (SPMIFA) for those funds over which the Foundation maintains variance power (as described in Note 1). For those funds over which the Foundation does not maintain variance power, the Board has interpreted that SPMIFA does apply and, thus, classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time restricted until the Board appropriates such amounts for expenditure. Most of those net assets are also subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restrictions. SPMIFA does not require the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary. As a result, the Foundation considers a fund to be underwater if the fair value of the fund is less than the original value of initial and subsequent gift amounts donated to the fund. The Foundation has interpreted SPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law.

Underwater Endowment Funds

At December 31, 2018, the Foundation had two donor-restricted endowment funds, which together had an original gift value of \$642,045, a fair value of \$601,929, and a deficiency of \$40,123. This deficiency resulted from unfavorable market fluctuations that occurred in 2018, shortly after the creation of these funds. In 2019, the market value of these funds increased and the deficiency was eliminated.

15. Retirement Plan

The Foundation has a defined contribution retirement plan covering all employees. Contributions are based upon a percentage of the employees' compensation and are funded currently. Contributions to the plan were approximately \$518,611 and \$557,882 for the years ended December 31, 2019 and 2018, respectively.

16. Related Parties

The Foundation's board of governors is composed of business and civic leaders in the State of Hawai'i. Certain of these business leaders have past and present affiliations with three financial institutions that provide trustee services for the Foundation. Trustee and custodial fees paid to these three financial institutions amounted to approximately \$2,431,000 and \$2,378,000 in 2019 and 2018, respectively. A member of the board of governors is also the principal of a consulting firm that provided services to the Foundation, amounting to approximately \$111,000 and \$120,000 in 2019 and 2018, respectively. Additionally, certain board members or officers may have affiliations with other nonprofit organizations that may be the recipient of Foundation grants. The Foundation's conflict of interest policies require that persons in potential conflict situations abstain from participating in decision-making processes.

Hawai'i Community Foundation
(A Nonprofit Organization)
Notes to Financial Statements
December 31, 2019 and 2018

17. Subsequent Events

Management has reviewed and considered whether events occurring after year end should be reflected or disclosed in these financial statements. The date through which this review was conducted was August 14, 2020, the date the financial statements were available to be issued.

Subsequent to year end, the outbreak of the coronavirus disease 2019 (COVID-19) caused substantial economic disruption to the Hawaii and global economy, including volatility to financial markets. Management does not expect any material near term adverse effects on the Foundation's financial condition, however given the inherent uncertainty this pandemic has had on the Hawaii economy and global financial markets, it is possible that longer term adverse effects (e.g. reduced donor contributions, adverse investment results) could arise.

In May 2020, the Foundation obtained a loan under the Paycheck Protection Program (PPP) in the amount of \$1,346,600. The PPP, established as part of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), provides for loans to qualifying organizations. The loans and accrued interest are forgivable if the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during the payroll measurement period. The unforgiven portion of the PPP loan is payable over two years at an interest rate of 1 percent, with a deferral of payments for the first six months. The Company expects that a majority of the loan will qualify for forgiveness.

Hawai'i Community Foundation
(A Nonprofit Organization)
Notes to Financial Statements
December 31, 2019 and 2018

18. Community Grantmaking Services (UNAUDITED)

The Foundation assists private foundations and other organizations in their community grantmaking by providing grant evaluation and grant management services. The Foundation receives a fee for these contracted services. Through this activity, the Foundation facilitated approximately \$11,900,000 and \$11,600,000 of additional community grantmaking by these private foundations and organizations for the years ended December 31, 2019 and 2018 respectively; which is not reflected in the Foundation's financial statements. The direct costs of services related to this activity are included in the expenses shown in the Statements of Revenues and Expenses and Changes in Net Assets as well as the Statements of Functional Expenses under Program Services which is described in Note 1.

Supplementary Information

Hawai'i Community Foundation
(A Nonprofit Organization)
Schedule of Pooled Income Fund Investments
December 31, 2019 and 2018

Supplementary Information

	2019		
	Units	Cost	Fair Value
Fixed income funds			
Federated Total Return Bond Fund	451	\$ 4,986	\$ 4,991
Vanguard Total Bond Market Index	1,808	19,535	19,978
Bishop Street High Grade Income Fund	180	1,715	1,777
Total fixed income funds	<u>2,439</u>	<u>26,236</u>	<u>26,746</u>
Money market funds			
Dreyfus Cash Management		366	366
Blackrock Liquidity Fund		4,540	4,540
		<u>\$ 31,142</u>	<u>\$ 31,652</u>
	2018		
	Units	Cost	Fair Value
Fixed income funds			
Federated Total Return Bond Fund	451	\$ 4,986	\$ 4,706
Vanguard Total Bond Market Index	1,808	19,535	18,894
Bishop Street High Grade Income Fund	180	1,715	1,669
Total fixed income funds	<u>2,439</u>	<u>26,236</u>	<u>25,269</u>
Money market funds			
Dreyfus Cash Management		370	370
Blackrock Liquidity Fund		4,464	4,464
		<u>\$ 31,070</u>	<u>\$ 30,103</u>

Hawai'i Community Foundation
(A Nonprofit Organization)
Schedule of Changes in Pooled Income
Fund Investments
Years Ended December 31, 2019 and 2018

Supplementary Information

	Cost			
	January 1, 2019	Purchases / Additions	Sales / Maturities	December 31, 2019
Fixed income funds				
Federated Total Return Bond Fund	\$ 4,986	\$ -	\$ -	\$ 4,986
Vanguard Total Bond Market Index	19,535	-	-	19,535
Bishop Street High Grade Income Fund	1,715	-	-	1,715
Total fixed income funds	26,236	-	-	26,236
Money market funds				
Dreyfus Cash Management	370	725	(729)	366
Blackrock Liquidity Fund	4,464	127	(51)	4,540
Total money market funds	4,834	852	(780)	4,906
	<u>\$ 31,070</u>	<u>\$ 852</u>	<u>\$ (780)</u>	<u>\$ 31,142</u>

	Cost			
	January 1, 2018	Purchases / Additions	Sales / Maturities	December 31, 2018
Fixed income funds				
Federated Total Return Bond Fund	\$ 4,986	\$ -	\$ -	\$ 4,986
Vanguard Total Bond Market Index	19,535	-	-	19,535
Bishop Street High Grade Income Fund	1,797	18	(100)	1,715
Total fixed income funds	26,318	18	(100)	26,236
Money market funds				
Dreyfus Cash Management	353	689	(672)	370
Blackrock Liquidity Fund	4,432	1,958	(1,926)	4,464
Total money market funds	4,785	2,647	(2,598)	4,834
	<u>\$ 31,103</u>	<u>\$ 2,665</u>	<u>\$ (2,698)</u>	<u>\$ 31,070</u>