

HAWAII PUBLIC RADIO

FINANCIAL STATEMENTS
As of and for the Year Ended June 30, 2020
With Prior Year Comparative Information
And Independent Auditor's Report



CW Associates
A Hawaii Certified Public Accounting Corporation



INDEPENDENT AUDITOR'S REPORT

Hawaii Public Radio:

Report on the Financial Statements

We have audited the accompanying financial statements of Hawaii Public Radio (HPR), a nonprofit Hawaii corporation, which comprise the statement of financial position as of June 30, 2020, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion on the Financial Statements

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

Emphasis of Matter

As discussed in Note A to the financial statements, during the year ended June 30, 2020, HPR adopted Accounting Standards Update (ASU) No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* and ASU No. 2016-18, *Statement of Cash Flows (Topic 230) – Restricted Cash*. Our opinion is not modified with respect to this matter.

Report on Prior Year Comparative Information

We have previously audited the financial statements of HPR as of and for the year ended June 30, 2019, and in our report dated November 18, 2019, we expressed an unmodified opinion on those audited financial statements. In our opinion, the accompanying prior year comparative information is consistent, in all material respects, with the audited financial statements from which it has been derived.

CW ASSOCIATES, CPAs

Honolulu, Hawaii
November 23, 2020

HAWAII PUBLIC RADIO
STATEMENT OF FINANCIAL POSITION
As of June 30, 2020
(With Prior Year Comparative Information)

| | <u>2020</u> | <u>2019</u> |
|---|-----------------------------|-----------------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash (including interest-bearing accounts) | \$ 4,181,543 | \$ 3,472,961 |
| Accounts receivable – net | 82,850 | 115,595 |
| Pledges receivable – net | 192,175 | 222,397 |
| Prepaid expenses and other current assets | 141,968 | 138,524 |
| Beneficial interest in charitable lead trust – current | 38,608 | 41,697 |
| Total current assets | <u>4,637,144</u> | <u>3,991,174</u> |
| NONCURRENT ASSETS | | |
| Investments | 8,222,336 | 7,986,270 |
| Property and equipment – net | 1,495,237 | 1,636,356 |
| Beneficial interest in charitable lead trust – noncurrent | 203,638 | 242,246 |
| Station licenses – net | 119,417 | 14,083 |
| Total noncurrent assets | <u>10,040,628</u> | <u>9,878,955</u> |
| TOTAL ASSETS | <u>\$ 14,677,772</u> | <u>\$ 13,870,129</u> |
| LIABILITIES AND NET ASSETS | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 272,977 | \$ 191,780 |
| Accrued liabilities | 154,200 | 125,216 |
| Total current liabilities | <u>427,177</u> | <u>316,996</u> |
| TOTAL LIABILITIES | <u>427,177</u> | <u>316,996</u> |
| NET ASSETS | | |
| Net assets without donor restrictions | | |
| Undesignated | 12,033,469 | 11,301,662 |
| Invested in property and equipment | 1,495,237 | 1,636,356 |
| Total net assets without donor restrictions | <u>13,528,706</u> | <u>12,938,018</u> |
| Net assets with donor restrictions | 721,889 | 615,115 |
| Total net assets | <u>14,250,595</u> | <u>13,553,133</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 14,677,772</u> | <u>\$ 13,870,129</u> |

See accompanying notes to the financial statements.

HAWAII PUBLIC RADIO
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2020
(With Prior Year Comparative Information)

| | <u>2020</u> | <u>2019</u> |
|---|----------------------------|----------------------------|
| CHANGES IN NET ASSETS | | |
| WITHOUT DONOR RESTRICTIONS | | |
| Revenue and support | | |
| Membership | \$ 3,739,873 | \$ 3,659,306 |
| Underwriting | 1,732,499 | 1,641,611 |
| Contributions without donor restrictions | 390,359 | 197,105 |
| Grant from the Corporation for Public Broadcasting | 330,524 | 250,002 |
| Net assets released from donor restrictions | 199,328 | 147,283 |
| In-kind contributions | 30,678 | 64,714 |
| Program event revenue | 28,520 | 186,222 |
| Special events – net | 23,004 | 720 |
| Investment income (loss) – net | (19,957) | 267,772 |
| Other income | 20,346 | 32,716 |
| Total revenue and support | <u>6,475,174</u> | <u>6,447,451</u> |
| Expenses | | |
| Program services | | |
| Programming and production | 2,348,865 | 2,187,751 |
| Broadcasting | 1,462,624 | 1,311,180 |
| Program information | 289,121 | 347,437 |
| Total program services | <u>4,100,610</u> | <u>3,846,368</u> |
| Supporting services | | |
| Fundraising and development | 1,379,996 | 1,266,316 |
| Management and general | 403,880 | 428,512 |
| Total supporting services | <u>1,783,876</u> | <u>1,694,828</u> |
| Total expenses | <u>5,884,486</u> | <u>5,541,196</u> |
| Increase in net assets without donor restrictions | <u>590,688</u> | <u>906,255</u> |
| CHANGES IN NET ASSETS | | |
| WITH DONOR RESTRICTIONS | | |
| Contributions with donor restrictions | 213,167 | 13,963 |
| Grant from the Corporation for Public Broadcasting | 92,935 | 90,276 |
| Net assets released from donor restrictions | <u>(199,328)</u> | <u>(147,283)</u> |
| Increase (decrease) in net assets with donor restrictions | <u>106,774</u> | <u>(43,044)</u> |
| INCREASE IN NET ASSETS | 697,462 | 863,211 |
| NET ASSETS – Beginning of the year | <u>13,553,133</u> | <u>12,689,922</u> |
| NET ASSETS – Ending of the year | <u>\$14,250,595</u> | <u>\$13,553,133</u> |

See accompanying notes to the financial statements.

HAWAII PUBLIC RADIO

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2020
(With Prior Year Comparative Information)

| | Programming and <u>Production</u> | Broadcasting | Program Information | Total Program Services | Fundraising and <u>Development</u> | Management and <u>General</u> | Total Supporting Services | 2020 <u>Total</u> | 2019 <u>Total</u> |
|---|---|--------------------|------------------------|------------------------------|--|-------------------------------------|---------------------------------|----------------------|----------------------|
| Salaries, wages, and benefits | \$ 1,233,424 | \$ 496,502 | \$192,159 | \$1,922,085 | \$ 831,273 | \$ 307,501 | \$1,138,774 | \$3,060,859 | \$2,710,051 |
| Programming NPR/PRI/APM | 657,216 | - | - | 657,216 | - | - | - | 657,216 | 616,748 |
| Occupancy | 42,411 | 353,108 | 1,395 | 396,914 | 22,767 | 21,890 | 44,657 | 441,571 | 428,833 |
| Professional and contract services | 44,210 | 148,385 | 14,631 | 207,226 | 37,147 | 26,034 | 63,181 | 270,407 | 223,896 |
| Depreciation and amortization | 51,327 | 182,450 | 3,423 | 237,200 | 22,855 | 5,746 | 28,601 | 265,801 | 248,626 |
| Repairs and maintenance | 56,968 | 69,612 | 5,305 | 131,885 | 41,787 | 6,422 | 48,209 | 180,094 | 154,097 |
| Supplies | 10,012 | 28,169 | 1,504 | 39,685 | 116,822 | 2,851 | 119,673 | 159,358 | 201,759 |
| Telephone | 8,576 | 121,003 | 842 | 130,421 | 21,638 | 2,782 | 24,420 | 154,841 | 140,185 |
| Membership dues | 97,980 | - | 15,334 | 113,314 | 9,286 | 2,136 | 11,422 | 124,736 | 124,965 |
| Merchant fees | - | - | - | - | 119,717 | - | 119,717 | 119,717 | 138,570 |
| Printing and publications | 7,447 | 1,896 | 14,299 | 23,642 | 56,202 | 684 | 56,886 | 80,528 | 87,072 |
| Insurance | 17,248 | 36,820 | 2,242 | 56,310 | 10,737 | 11,474 | 22,211 | 78,521 | 75,197 |
| Programming and production | 69,609 | - | - | 69,609 | - | - | - | 69,609 | 77,271 |
| Postage and shipping | 333 | 307 | 3,310 | 3,950 | 31,913 | 514 | 32,427 | 36,377 | 38,926 |
| Donated facilities and services | 735 | 19,200 | 3,444 | 23,379 | 7,103 | 196 | 7,299 | 30,678 | 64,714 |
| Parking, mileage, and fuel | 15,124 | 1,815 | - | 16,939 | 10,048 | 1,915 | 11,963 | 28,902 | 20,363 |
| Travel | 7,878 | - | 5,378 | 13,256 | 8,942 | 6,027 | 14,969 | 28,225 | 31,071 |
| Program events | 21,896 | - | - | 21,896 | - | - | - | 21,896 | 98,092 |
| Conferences and meetings | 2,115 | - | 4,329 | 6,444 | 6,918 | 5,630 | 12,548 | 18,992 | 17,826 |
| Miscellaneous | 4,356 | 3,357 | 21,526 | 29,239 | 33,060 | 2,078 | 35,138 | 64,377 | 47,423 |
| Total expense by function | <u>2,348,865</u> | <u>1,462,624</u> | <u>289,121</u> | <u>4,100,610</u> | <u>1,388,215</u> | <u>403,880</u> | <u>1,792,095</u> | <u>5,892,705</u> | <u>5,545,685</u> |
| Direct costs of special events reported net with revenue in statement of activities | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(8,219)</u> | <u>-</u> | <u>(8,219)</u> | <u>(8,219)</u> | <u>(4,489)</u> |
| Total expenses | <u>\$2,348,865</u> | <u>\$1,462,624</u> | <u>\$289,121</u> | <u>\$4,100,610</u> | <u>\$1,379,996</u> | <u>\$ 403,880</u> | <u>\$1,783,876</u> | <u>\$5,884,486</u> | <u>\$5,541,196</u> |

See accompanying notes to the financial statements.

HAWAII PUBLIC RADIO

STATEMENT OF CASH FLOWS

**For the Year Ended June 30, 2020
(With Prior Year Comparative Information)**

| | <u>2020</u> | <u>2019</u> |
|--|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Increase in net assets | \$ 697,462 | \$ 863,211 |
| Adjustments to reconcile increase in net assets to cash provided by operating activities | | |
| Depreciation and amortization | 265,801 | 248,626 |
| (Gains) losses on investments | 218,281 | (120,877) |
| Contribution of marketable securities | (10,036) | - |
| Gain on sale of property and equipment | - | (12,370) |
| (Increase) decrease in | | |
| Accounts receivable – net | 32,745 | 21,230 |
| Pledges receivable – net | 30,222 | 43,959 |
| Prepaid expenses and other current assets | (3,444) | 37,404 |
| Beneficial interest in charitable lead trust | 41,697 | 45,033 |
| Increase (decrease) in | | |
| Accounts payable | 81,197 | 41,830 |
| Accrued liabilities | 28,984 | (53,891) |
| Cash provided by operating activities | <u>1,382,909</u> | <u>1,114,155</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Sales of investments | 15,124,586 | 14,373,015 |
| Purchases of investments | (15,568,897) | (15,494,051) |
| Proceeds from sale of equipment | - | 31,900 |
| Additions to property and equipment | (120,016) | (142,839) |
| Purchase of broadcast licenses | (110,000) | - |
| Net cash used by investing activities | <u>(674,327)</u> | <u>(1,231,975)</u> |
| NET INCREASE (DECREASE) IN CASH | 708,582 | (117,820) |
| CASH – Beginning of the year | <u>3,472,961</u> | <u>3,590,781</u> |
| CASH – Ending of the year | <u>\$ 4,181,543</u> | <u>\$ 3,472,961</u> |
| SUPPLEMENTAL CASH FLOW INFORMATION | | |
| Noncash operating and investing activity – | | |
| Contribution of marketable securities | \$ 10,036 | \$ - |

See accompanying notes to the financial statements.

HAWAII PUBLIC RADIO

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2020
(With Prior Year Comparative Information)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Activity

Hawaii Public Radio (HPR) was incorporated in the State of Hawaii on April 10, 1984 to provide non-commercial, cultural, and informational programming in the State of Hawaii, the nation, and international community. HPR is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and is not a private foundation. Accordingly, qualifying contributions to HPR are tax deductible.

HPR provides statewide coverage over two discrete programming streams: HPR-1 provides news, talk, jazz, blues, and world music; and HPR-2 provides classical music. The radio station and all operations are conducted from facilities in Honolulu, Hawaii. Broadcasting for HPR-1 and HPR-2 is from Honolulu on 88.1 FM (KHPR) and 89.3 FM (KIPO), respectively. HPR's signals extend across the eight main Hawaiian Islands with 16 additional stations under the following call signs and frequencies:

| <u>Island(s)</u> | <u>HPR-1</u> | <u>HPR-2</u> |
|----------------------|---------------------------------------|--|
| Hawaii | KANO 89.1 KHPH 88.7 K235CN 94.9 | KAHU 91.3 K239BV 95.7 K283CR 104.5 |
| Maui, Molokai, Lanai | KKUA 90.7 KJHF 103.1 | KIPM 89.7 KIPH 88.3 |
| Oahu | KHPR 88.1 K203EL 88.5 | KIPO 89.3 K264BL 100.7 |
| Kauai | KIPL 89.9 | K269GD 101.7 |

Basis of Presentation

HPR reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. Contributions are recorded as increases to net assets with donor restrictions or net assets without donor restrictions depending on the existence and/or nature of any donor restrictions. Contributions are considered to be available for unrestricted use unless restricted by the donor. Donor restricted support is reported 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.

HAWAII PUBLIC RADIO

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended June 30, 2020 (With Prior Year Comparative Information)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of financial statements in accordance with such generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of changes in net assets during the reporting period. Actual results could differ from those estimates, and it is reasonably possible that such estimates may change within the near term.

Concentrations of Credit Risk

Financial instruments that potentially subject HPR to credit risk include cash, accounts receivable, pledges receivable, and investments. At June 30, 2020 and 2019, HPR's cash on deposit exceeded the related federal deposit insurance by approximately \$3,970,800 and \$3,256,700, respectively. Accounts receivable and pledges receivable, which have been reduced by estimated allowances for doubtful accounts, are determined to be collectible or uncollectible based on an assessment by management of the facts and circumstances related to the individual accounts. The estimated allowance for uncollectible accounts receivable amounted to \$5,000 at June 30, 2020 and 2019. The estimated allowance for uncollectible pledges receivable amounted to \$14,500 at June 30, 2020 and 2019, respectively. Investments in marketable securities are insured by federal and private insurance, as represented by the custodian. Future changes in market prices may make such investments less valuable.

Property and Equipment

Property and equipment is stated at cost or, if donated, at estimated fair market value at the date of donation. Depreciation is computed using the straight-line method over estimated useful lives of three to 39 years for building and improvements and broadcast equipment; and five years for furniture and fixtures and other equipment. Property and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amounts may not be recoverable. Repairs and maintenance are expensed as incurred. Additions, betterments, and improvements over \$1,000 are capitalized.

Revenue and Expense Recognition

Revenue is recognized when the services are performed. Expenses are recognized when the related liability is incurred. HPR allocates its expenses on a functional basis amount its programs and supporting services based on estimates of management. Expenses that can be identified with a specific program or supporting service are charged directly to the program or supporting service using natural expense classifications. Other expenses that are common to several functional are allocated to the various programs and supporting services based on estimates by management, including effort for salaries, wages, and benefits and usage for other costs.

HAWAII PUBLIC RADIO

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended June 30, 2020 (With Prior Year Comparative Information)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Donor Contributions

HPR recognized contributions when cash, securities, or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give, those with measurable performance or other barrier and a right of return, are not recognized until the conditions on which they depend have been met.

Grants and Contracts

HPR's revenue from grants is based on agreements with other entities such as private foundations. HPR recognizes grants and contracts as either contributions or exchange transactions depending on whether the transaction is reciprocal or nonreciprocal. HPR records funds received from conditional grants when the conditions are met. Grants with donor restrictions are recorded in net assets with donor restrictions and are released to net assets without donor restrictions as the restrictions are met.

Donated Rent, Goods, and Services

In-kind contributions of services and facilities that meet the criteria for recognition are recognized as contributions at the estimated fair market value at the date of donation, and are recorded as expenses or assets in the same amount. For the years ended June 30, 2020 and 2019 donated services and facilities amounted to \$30,678 and \$64,714, respectively. 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 by HPR. A substantial number of unpaid volunteers have also made significant contributions of their time to HPR. The value of their time is not reflected in these financial statements because it does not meet the criteria for recognition.

Investments

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

Hawaii General Excise Tax

The State of Hawaii imposes a general excise tax of 4% on certain gross receipts of HPR within Hawaii, plus an additional 0.5% on such gross receipts within the City and County of Honolulu. Hawaii general excise tax is included in various expense accounts. For the years ended June 30, 2020 and 2019, Hawaii general excise tax amounted to \$581 and \$226, respectively.

HAWAII PUBLIC RADIO

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended June 30, 2020 (With Prior Year Comparative Information)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

Accounting principles generally accepted in the United States of America require 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 HPR's tax positions as of June 30, 2020 and 2019 and for the years then ended, and determined that HPR had no uncertain tax positions required to be reported in accordance with such generally accepted accounting principles. HPR is subject to routine audits by taxing jurisdictions; however, there are currently no audits in progress for any open tax periods.

Adoption of New Accounting Pronouncements

In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU provides a framework for determining when a transaction should be accounted for as a contribution or as an exchange transaction. This ASU also requires an entity to determine whether a contribution is conditional on the basis of whether an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets.

HPR implemented this ASU during the year ended June 30, 2020 using the modified retrospective transition method. The cumulative effect of implementing this ASU was not significant to HPR's financial statements as of July 01, 2019 and for the year ended June 30, 2020.

In November 2016, FASB issued ASU No. 2016-08, *Statement of Cash Flows (Topic 230) – Restricted Cash*. This ASU requires that the statement of cash flows includes all cash and cash equivalents, whether the cash is unrestricted or restricted.

HPR implemented this ASU during the year ended June 30, 2020. The implementation of this ASU did not have an impact on HPR's financial statements as of and for the year ended June 30, 2020.

NOTE B – LIQUIDITY

HPR monitors the liquidity required to meet its operating and capital needs for the 12-month period following the statement of financial position date. HPR has various sources of liquidity, including cash, accounts and pledges receivables, and investments. Accounts and pledges receivables are subject to implied time restrictions, but are expected to be collected within one year. Investments are not included in the financial assets available to meet cash needs for general expenditures within one year as HPR does not intend to use investments for general operating purposes.

HAWAII PUBLIC RADIO

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended June 30, 2020 (With Prior Year Comparative Information)

NOTE B – LIQUIDITY (Continued)

The following reflects the financial assets of HPR as of June 30, 2020 and 2019 available to meet cash needs for general expenditures within one year of the statement of financial position date:

| | <u>2020</u> | <u>2019</u> |
|--|--------------------|--------------------|
| Cash (including interest-bearing accounts) | \$4,181,543 | \$3,472,961 |
| Accounts receivable – net | 82,850 | 115,595 |
| Pledges receivable – net | <u>192,175</u> | <u>222,397</u> |
| Total financial assets | 4,456,568 | 3,810,953 |
| Net assets with donor restrictions | <u>(721,889)</u> | <u>(615,115)</u> |
| | | |
| Financial assets available to meet cash needs for general expenditures within one year | <u>\$3,734,679</u> | <u>\$3,195,838</u> |

NOTE C – INVESTMENTS

At June 30, 2020 and 2019, investments consisted of the following:

| | <u>2020</u> | <u>2019</u> |
|--------------------------|---------------------|---------------------|
| Mutual funds | \$ 3,625,307 | \$ 3,947,799 |
| Exchange traded funds | 2,984,904 | 2,546,824 |
| Cash management accounts | 1,330,334 | 1,240,883 |
| Certificate of deposit | 280,076 | 248,002 |
| Common stock | <u>1,715</u> | <u>2,762</u> |
| | | |
| Total | <u>\$ 8,222,336</u> | <u>\$ 7,986,270</u> |

HAWAII PUBLIC RADIO

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended June 30, 2020 (With Prior Year Comparative Information)

NOTE C – INVESTMENTS (Continued)

For the years ended June 30, 2020 and 2019, investment income (loss) consisted of the following:

| | <u>2020</u> | <u>2019</u> |
|--|--------------------|------------------|
| Interest and dividends | \$253,681 | \$200,125 |
| Net unrealized gains (losses) from holding investments | 99,527 | (651,338) |
| Net realized gains (losses) from sales of investments | <u>(317,808)</u> | <u>772,215</u> |
| Investment income | 35,400 | 321,002 |
| Investment fees | <u>(55,357)</u> | <u>(53,230)</u> |
| Investment income (loss) – net | <u>\$ (19,957)</u> | <u>\$267,772</u> |

The Finance Committee of the HPR Board of Directors is responsible for overseeing HPR's investment activities. This includes developing a spending policy, selecting appropriate service providers, establishing asset class ranges, reviewing performance, reviewing current funding levels, and recommending changes to HPR's Investment Policy Statement. The primary objective is to obtain a return sufficient for HPR to achieve its spending policy goals. The investment approach and allocation strategy is to take a long-term view of building value in quality investments, while minimizing risk and preserving the investments.

NOTE D – FAIR VALUE MEASUREMENTS

The established framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation methodologies used to measure fair value. There are three levels of the fair value hierarchy. Level 1 inputs consist of unadjusted quoted prices for identical assets or liabilities in active markets that the entity has the ability to access. Level 2 inputs 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. 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. Level 3 inputs are unobservable and significant to the fair value measurement. The fair value measurement level of an asset or liability within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation methodologies used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

HAWAII PUBLIC RADIO

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**For the Year Ended June 30, 2020
(With Prior Year Comparative Information)**

NOTE D – FAIR VALUE MEASUREMENTS (Continued)

At June 30, 2020 and 2019, the fair value measurements reportable by HPR (see Note C) consisted of mutual funds, exchange-traded funds, and common stock valued at quoted market prices; investments in cash management accounts valued at stated value (Level 1 measurements); and a certificate of deposit valued at cost, which approximates fair value (Level 2 measurement). There were no investments for which Level 3 valuation inputs were required. The methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values.

The following sets forth by level, within the fair value hierarchy, HPR’s investments at fair value as of June 30, 2020:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|---------------------------------|--------------------|------------------|----------------|--------------------|
| Mutual funds | | | | |
| Intermediate-term bonds | \$2,558,674 | \$ - | \$ - | \$2,558,674 |
| International | 771,917 | - | - | 771,917 |
| Small-cap equity | 294,716 | - | - | 294,716 |
| Total mutual funds | <u>3,625,307</u> | <u>-</u> | <u>-</u> | <u>3,625,307</u> |
| Exchange-traded funds | | | | |
| Large-cap equity | 2,046,710 | - | - | 2,046,710 |
| Mid-cap equity | 580,372 | - | - | 580,372 |
| Intermediate-term bonds | 357,822 | - | - | 357,822 |
| Total exchange-traded funds | <u>2,984,904</u> | <u>-</u> | <u>-</u> | <u>2,984,904</u> |
| Cash management accounts | <u>1,330,334</u> | <u>-</u> | <u>-</u> | <u>1,330,334</u> |
| Certificate of deposit | <u>-</u> | 280,076 | - | 280,076 |
| Common stock | <u>1,715</u> | <u>-</u> | <u>-</u> | <u>1,715</u> |
| Total investments at fair value | <u>\$7,942,260</u> | <u>\$280,076</u> | <u>\$ -</u> | <u>\$8,222,336</u> |

HAWAII PUBLIC RADIO

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended June 30, 2020 (With Prior Year Comparative Information)

NOTE D – FAIR VALUE MEASUREMENTS (Continued)

The following sets forth by level, within the fair value hierarchy, HPR's investments at fair value as of June 30, 2019:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|---------------------------------|---------------------|-------------------|----------------|---------------------|
| Mutual funds | | | | |
| Intermediate-term bonds | \$ 625,536 | \$ - | \$ - | \$ 625,536 |
| Fixed income | 1,894,036 | - | - | 1,894,036 |
| International | 784,830 | - | - | 784,830 |
| Small-cap equity | 643,397 | - | - | 643,397 |
| Total mutual funds | <u>3,947,799</u> | <u>-</u> | <u>-</u> | <u>3,947,799</u> |
| Exchange-traded funds | | | | |
| Large-cap equity | 1,867,731 | - | - | 1,867,731 |
| Mid-cap equity | 260,640 | - | - | 260,640 |
| Intermediate-term bonds | 418,453 | - | - | 418,453 |
| Total exchange-traded funds | <u>2,546,824</u> | <u>-</u> | <u>-</u> | <u>2,546,824</u> |
| Cash management accounts | <u>1,240,883</u> | <u>-</u> | <u>-</u> | <u>1,240,883</u> |
| Certificate of deposit | <u>-</u> | <u>248,002</u> | <u>-</u> | <u>248,002</u> |
| Common stock | <u>2,762</u> | <u>-</u> | <u>-</u> | <u>2,762</u> |
| Total investments at fair value | <u>\$ 7,738,268</u> | <u>\$ 248,002</u> | <u>\$ -</u> | <u>\$ 7,986,270</u> |

NOTE E – PROPERTY AND EQUIPMENT

At June 30, 2020 and 2019, property and equipment consisted of the following:

| | <u>2020</u> | <u>2019</u> |
|--------------------------------|---------------------|---------------------|
| Building and improvements | \$ 2,888,075 | \$ 2,845,799 |
| Broadcast equipment | 2,775,200 | 2,703,613 |
| Furniture and fixtures | 329,429 | 323,276 |
| Other equipment | 76,311 | 76,311 |
| Total depreciable assets | 6,069,015 | 5,948,999 |
| Accumulated depreciation | <u>(4,694,805)</u> | <u>(4,433,670)</u> |
| Total depreciable assets – net | 1,374,210 | 1,515,329 |
| Land | <u>121,027</u> | <u>121,027</u> |
| Property and equipment – net | <u>\$ 1,495,237</u> | <u>\$ 1,636,356</u> |

HAWAII PUBLIC RADIO

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**For the Year Ended June 30, 2020
(With Prior Year Comparative Information)**

NOTE F – BENEFICIAL INTEREST IN CHARITABLE LEAD TRUST

HPR is the beneficiary of a charitable lead trust, the terms of which provide that HPR is entitled to receive twenty annual payments of \$105,000 through 2028, discounted using an 8% annual rate. At June 30, 2020 and 2019, the remaining discounted present value, recognized in the statements of financial position amounted to the following:

| | <u>2020</u> | <u>2019</u> |
|---|------------------|-------------------|
| Beneficial interest in charitable lead trust – current | \$ 38,608 | \$ 41,697 |
| Beneficial interest in charitable lead trust – noncurrent | <u>203,638</u> | <u>242,246</u> |
| Beneficial interest in charitable lead trust | <u>\$242,246</u> | <u>\$ 283,943</u> |

NOTE G – NET ASSETS WITH DONOR RESTRICTIONS

At June 30, 2020 and 2019, net assets with donor restrictions consisted of the following:

| | <u>2020</u> | <u>2019</u> |
|--|------------------|-------------------|
| Net assets with donor restrictions for | | |
| Endowment fund | \$309,372 | \$ 300,543 |
| Beneficial interest in charitable lead trust | 242,246 | 283,943 |
| Eblen - Building Fund | 100,025 | - |
| Hawaii Community Foundation | 47,015 | - |
| Equipment fund | 17,347 | 19,178 |
| Other activities | 5,884 | 6,451 |
| Building fund | <u>-</u> | <u>5,000</u> |
| Total net assets with donor restrictions | <u>\$721,889</u> | <u>\$ 615,115</u> |

HAWAII PUBLIC RADIO

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended June 30, 2020 (With Prior Year Comparative Information)

NOTE H – DONOR RESTRICTED ENDOWMENT

At June 30, 2020 and 2019, HPR maintained a general endowment fund to which donors may make contributions that are restricted in perpetuity. The earnings of the endowment fund are for the benefit of HPR unless such earnings are related to contributions that are restricted by the donor (none to date). For the years ended June 30, 2020 and 2019, donor restricted contributions to the endowment amounted to \$8,829 and \$1,310, respectively. At June 30, 2020 and 2019, net assets restricted for the endowment fund amounted to \$309,372 and \$300,543, respectively.

Accounting principles generally accepted in the United States of America provide guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an amended version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA), which was enacted in the State of Hawaii on July 1, 2009. The Board of Directors of HPR has interpreted the Act as requiring the preservation of the original gift of donor-restricted endowment funds as net assets with donor restriction, absent explicit donor stipulations to the contrary. The policy adopted by HPR for such endowment contributions classifies general endowment gifts as net assets with donor restrictions.

Changes in donor restricted endowments for the year ended June 30, 2020 and 2019 were as follows:

| | |
|--------------------------------|------------------|
| Balance as of June 30, 2018 | \$299,233 |
| Contributions | 1,310 |
| Realized and unrealized gains | 7,143 |
| Interest and dividends | 8,739 |
| Releases from restriction | <u>(15,882)</u> |
| Balance as of June 30, 2019 | 300,543 |
| Contributions and additions | 10,544 |
| Realized and unrealized losses | <u>(10,568)</u> |
| Interest and dividends | <u>8,853</u> |
| Balance as of June 30, 2020 | <u>\$309,372</u> |

HAWAII PUBLIC RADIO

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended June 30, 2020 (With Prior Year Comparative Information)

NOTE I – LEASES

HPR leases land and office equipment under various operating lease agreements expiring through February 2031. For the years ended June 30, 2020 and 2019, land and office equipment rent expense, which is recorded in various expense accounts, amounted to \$248,383 and \$235,702, respectively. At June 30, 2020, future minimum lease payments approximated the following:

| | |
|------------------------|------------|
| Years Ending June 30th | |
| 2021 | \$ 240,200 |
| 2022 | \$ 234,500 |
| 2023 | \$ 156,000 |
| 2024 | \$ 104,200 |
| 2025 | \$ 105,800 |
| Thereafter | \$ 547,400 |

HPR receives donated space for its transmitter site on the Island of Hawaii. The estimated annual fair value of rent for the space is \$1,800, which is included in in-kind contributions revenue and in donated facilities and service expense for the years ended June 30, 2020 and 2019.

During the year ended June 30, 2019, a board member leased space to HPR amounting to \$48,000. The board member's term ended June 30, 2019.

NOTE J – RETIREMENT PLAN

HPR sponsors a defined contribution retirement plan under Section 403(b) of the Internal Revenue Code. Employees who complete a minimum of 1,000 hours of service within a continuous 12-month period are eligible to participate in the plan. The plan provides for eligible participants to receive an employer contribution of 5% of eligible wages. A supplemental retirement annuity option allows employees to make contributions upon hire up to statutory limits. For the years ended June 30, 2020 and 2019, employer contributions amounted to \$95,664 and \$91,500, respectively.

NOTE K – CONTINGENCIES

HPR may be subject to legal proceedings, claims, or litigation arising in the ordinary course of business for which it may seek the advice of legal counsel. Management estimates that the cost to resolve these matters, if any, would not be material to the financial statements. However, it is reasonably possible that such estimates may change within the near term.

HAWAII PUBLIC RADIO

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended June 30, 2020 (With Prior Year Comparative Information)

NOTE K – CONTINGENCIES (Continued)

Revenue derived from the Corporation for Public Broadcasting (CPB) grants may be subject to audit and adjustment by CPB. Any disallowed amounts, including amounts already collected, may constitute a liability. Management expects such amounts, if any, to not be material to the financial statements. The loss of grants from CPB could have a material adverse effect on HPR.

HPR operates throughout the State of Hawaii. Local, national and international events (such as the COVID-19 pandemic) can have severe, adverse effects on economic conditions in Hawaii. These financial statements do not include the adjustments that would result if HPR were to account for future losses or asset impairments, as the effects on the financial statements of HPR from such changes in economic conditions are not presently determinable.

The COVID-19 pandemic has caused business disruptions from government-mandated and voluntary closings or reductions in services for all industries, and affected the fair value of investments in marketable securities. While the disruption is currently expected to be temporary, there is considerable uncertainty as to the duration of the negative economic impact from such disruption. This matter may negatively impact HPR's operating results; however, the potential financial impact cannot be reasonably estimated at this time.

NOTE L – FINANCIAL STATEMENT PRESENTATION

The accompanying financial statements include certain prior year comparative information that is not in sufficient detail to constitute a complete presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the financial statements of HPR as of and for the year ended June 30, 2019, from which the information was derived. Certain amounts in the prior year have been reclassified to conform to the current year presentation. These reclassification have no effect on previously reported changes in net assets.

NOTE M – SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 23, 2020, which is the date the financial statements were available to be issued, and determined that HPR did not have any subsequent events requiring adjustment to the financial statements or disclosure in the notes to the financial statements.