

# **Chaminade University of Honolulu**

Financial Statements

June 30, 2020 and 2019

Together with Independent Auditor's Report

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A Hawaii Limited Liability Partnership

## **Independent Auditor's Report**

To the Board of Regents of  
Chaminade University of Honolulu:

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Chaminade University of Honolulu (the University) which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities, cash flows, and functional expenses for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University as of June 30, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*KMH LLP*

KMH LLP

Honolulu, Hawaii  
November 25, 2020

# Chaminade University of Honolulu

Statements of Financial Position  
June 30, 2020 and 2019

## Assets

	<u>2020</u>	<u>2019</u>
Cash and Cash Equivalents	\$ 8,705,740	\$ 3,906,710
Restricted Cash Equivalents	<u>2,342,564</u>	<u>2,311,303</u>
	<u>11,048,304</u>	<u>6,218,013</u>
Receivables:		
Student tuition and fees (less allowance for doubtful accounts of approximately \$458,000 in 2020 and \$700,000 in 2019)	746,251	1,222,728
Pledges	4,067,686	4,972,179
Grants	2,228,568	1,547,533
Other	<u>243,761</u>	<u>237,278</u>
Total receivables	<u>7,286,266</u>	<u>7,979,718</u>
Investments	19,910,162	19,037,784
Other Assets	3,923,898	3,773,235
Land, Buildings, Improvements and Equipment, net	59,594,504	62,291,550
Interest in Net Assets of Chaminade University Educational Foundation	<u>1,621,672</u>	<u>1,477,636</u>
Total assets	<u>\$103,384,806</u>	<u>\$ 100,777,936</u>

See accompanying notes to financial statements.

# Chaminade University of Honolulu

Statements of Financial Position  
June 30, 2020 and 2019

## Liabilities and Net Assets

	<u>2020</u>	<u>2019</u>
Accounts Payable and Accrued Expenses	\$ 2,048,103	\$ 3,041,007
Accrued Payroll	1,662,000	1,511,391
Advance Tuitions and Other Deferred Revenues	1,220,655	1,459,419
Deposits Held in Custody for Others	219,469	234,010
Capital Lease Obligation	1,762,487	1,889,914
Notes Payable	4,171,800	-
Bonds Payable, net	<u>20,763,610</u>	<u>21,164,880</u>
Total liabilities	<u>31,848,124</u>	<u>29,300,621</u>
Commitments and Contingencies		
Net Assets:		
Without donor restrictions:	44,286,208	45,268,451
With donor restrictions	<u>27,250,474</u>	<u>26,208,864</u>
Total net assets	<u>71,536,682</u>	<u>71,477,315</u>
Total liabilities and net assets	<u><u>\$103,384,806</u></u>	<u><u>\$100,777,936</u></u>

See accompanying notes to financial statements.

## Chaminade University of Honolulu

### Statements of Activities

For the Years Ended June 30, 2020 and 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenues, Gains, and Other Support:</b>						
Tuition and fees, net of discounts and scholarships of \$15,077,661 in 2020 and \$14,859,332 in 2019	\$ 30,930,697	\$ -	\$ 30,930,697	\$ 29,981,125	\$ -	\$ 29,981,125
Contributions, private gifts and grants	3,162,938	4,902,230	8,065,168	3,727,059	6,132,439	9,859,498
Auxiliary enterprises	3,323,308	-	3,323,308	3,520,052	-	3,520,052
Federal grants and contracts	5,506,998	-	5,506,998	4,247,820	-	4,247,820
Net investment income	241,361	604,505	845,866	422,173	1,062,981	1,485,154
Change in interest in net assets of Chaminade University Educational Foundation	-	144,036	144,036	-	22,178	22,178
Net assets released from restrictions	4,609,161	(4,609,161)	-	5,702,271	(5,702,271)	-
Other	309,331	-	309,331	309,772	-	309,772
<b>Total revenues, gains, and other support</b>	<b>48,083,794</b>	<b>1,041,610</b>	<b>49,125,404</b>	<b>47,910,272</b>	<b>1,515,327</b>	<b>49,425,599</b>
<b>Expenses:</b>						
<b>Program expenses:</b>						
Instructional	18,203,214	-	18,203,214	17,385,107	-	17,385,107
Academic support	10,328,514	-	10,328,514	10,142,690	-	10,142,690
Institutional support	7,615,353	-	7,615,353	8,113,065	-	8,113,065
Student services	6,170,658	-	6,170,658	4,956,070	-	4,956,070
<b>Total program expenses</b>	<b>42,317,739</b>	<b>-</b>	<b>42,317,739</b>	<b>40,596,932</b>	<b>-</b>	<b>40,596,932</b>
Fund-raising	1,879,791	-	1,879,791	1,781,757	-	1,781,757
Auxiliary enterprises	4,868,507	-	4,868,507	4,716,061	-	4,716,061
<b>Total expenses</b>	<b>49,066,037</b>	<b>-</b>	<b>49,066,037</b>	<b>47,094,750</b>	<b>-</b>	<b>47,094,750</b>
Change in net assets	(982,243)	1,041,610	59,367	815,522	1,515,327	2,330,849
Net Assets, Beginning of Year	45,268,451	26,208,864	71,477,315	44,452,929	24,693,537	69,146,466
Net Assets, End of Year	<u>\$ 44,286,208</u>	<u>\$ 27,250,474</u>	<u>\$ 71,536,682</u>	<u>\$ 45,268,451</u>	<u>\$ 26,208,864</u>	<u>\$ 71,477,315</u>

See accompanying notes to financial statements.

## Chaminade University of Honolulu

### Statements of Cash Flows

For the Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash Flows from Operating Activities:		
Change in net assets	\$ 59,367	\$ 2,330,849
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization of fixed assets	4,050,686	4,176,503
Provision for doubtful accounts, net	(242,300)	26,300
Amortization of pledge discounts	(20,437)	(19,853)
Amortization of bond premiums and debt issuance costs	13,730	13,730
Interest in net assets of Chaminade		
University Educational Foundation	(144,036)	(22,178)
Net realized and unrealized gains on investments	(259,944)	(887,852)
Contributions restricted for long-term investment	(372,853)	(795,352)
Change in operating assets and liabilities:		
Student tuition and fees receivable	718,777	(602,490)
Pledges receivable	924,930	(543,236)
Grants receivable	(681,035)	(206,989)
Other receivables	(6,483)	205,059
Other assets	(150,663)	389,941
Accounts payable and accrued expenses	(992,904)	175,241
Accrued payroll	150,609	(1,920)
Advance tuitions and other deferred revenues	(238,764)	138,911
Deposits held in custody for others	(14,541)	3,079
Net cash provided by operating activities	<u>2,794,139</u>	<u>4,379,743</u>
Cash Flows from Investing Activities:		
Purchases of investments	(1,376,908)	(1,491,515)
Proceeds from sale of investments	764,474	744,825
Purchases of land, buildings, improvements, and equipment	<u>(1,353,640)</u>	<u>(5,007,125)</u>
Net cash used in investing activities	<u>\$ (1,966,074)</u>	<u>\$ (5,753,815)</u>

(continued)

See accompanying notes to financial statements.

## Chaminade University of Honolulu

### Statements of Cash Flows

For the Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash Flows from Financing Activities:		
Repayments of bonds payable	\$ (415,000)	\$ (395,000)
Payments on capital leases	(127,427)	(116,662)
(Increase) decrease in restricted cash equivalents	(31,261)	2,955,797
Proceeds from notes payable	4,171,800	-
Proceeds from contributions and investment income restricted for:		
Investment in endowment	257,398	525,427
Investment in plant	115,455	269,925
Net cash provided by financing activities	<u>3,970,965</u>	<u>3,239,487</u>
Net increase in cash and cash equivalents	4,799,030	1,865,415
Cash and Cash Equivalents at beginning of year	<u>3,906,710</u>	<u>2,041,295</u>
Cash and Cash Equivalents at end of year	<u>\$ 8,705,740</u>	<u>\$ 3,906,710</u>
Supplemental Disclosure of Cash Flow Information --		
Cash Paid During the Year for Interest	<u>\$ 1,276,091</u>	<u>\$ 751,195</u>
Supplemental Disclosure of Noncash Activity --		
Fixed Assets Additions Included in Accounts Payable and Accrued Expenses	<u>\$ -</u>	<u>\$ 705,573</u>

See accompanying notes to financial statements.

## Chaminade University of Honolulu

Statement of Functional Expenses  
For the Year Ended June 30, 2020

	Instructional	Academic Support	Institutional Support	Student Services	Fund-raising	Auxiliary Enterprises	Total
Salaries & Benefits	\$ 12,943,278	\$ 5,622,690	\$ 3,975,467	\$ 2,525,411	\$ 1,274,211	\$ 1,696,015	\$ 28,037,072
Supplies & Materials	476,208	275,557	118,461	98,173	18,960	170,247	1,157,606
Advertising & Promotion	13,338	62,476	43,541	430,927	114,617	57,627	722,526
Outside Services	1,312,068	234,669	220,026	330,403	325,876	140,019	2,563,061
Professional Services	4,193	109,095	790,456	7,229	126	7,444	918,543
Subscriptions & Fees	8,370	115,768	97,652	17,374	8,100	73,390	320,654
Utilities	276,979	377,642	299,456	134,263	9,813	528,334	1,626,487
Repairs & Maintenance	126,102	221,655	879,377	73,637	6,357	139,090	1,446,218
Lease & Operating Rent	823,633	1,109,371	321,291	382,023	24,729	502,928	3,163,975
Interest & Other	378,934	509,884	236,372	174,624	11,398	72,616	1,383,828
Depreciation and Amortization	1,234,017	1,232,194	560,149	421,135	54,124	549,067	4,050,686
Travel	87,936	107,508	12,088	117,404	7,786	408,286	741,008
Other Expenses	518,158	350,005	61,017	1,458,055	23,694	523,444	2,934,373
Total expenses	<u>\$ 18,203,214</u>	<u>\$ 10,328,514</u>	<u>\$ 7,615,353</u>	<u>\$ 6,170,658</u>	<u>\$ 1,879,791</u>	<u>\$ 4,868,507</u>	<u>\$ 49,066,037</u>

See accompanying notes to financial statements.

## Chaminade University of Honolulu

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

	Instructional	Academic Support	Institutional Support	Student Services	Fund-raising	Auxiliary Enterprises	Total
Salaries & Benefits	\$12,013,766	\$ 5,216,565	\$ 3,876,791	\$ 2,435,702	\$ 1,101,103	\$ 1,668,462	\$ 26,312,389
Supplies & Materials	418,193	214,445	64,056	69,631	10,681	206,883	983,889
Advertising & Promotion	6,356	85,466	62,346	366,776	63,036	52,137	636,117
Outside Services	1,240,069	305,985	214,293	403,425	358,247	160,971	2,682,990
Professional Services	6,455	116,410	872,175	6,119	194	9,439	1,010,792
Subscriptions & Fees	14,765	157,900	234,731	96,327	8,309	69,712	581,744
Utilities	288,433	400,086	315,775	136,264	10,568	557,045	1,708,171
Repairs & Maintenance	101,395	205,174	838,954	51,308	66,875	113,152	1,376,858
Lease & Operating Rent	827,804	1,084,147	328,172	370,122	23,971	660,248	3,294,464
Interest & Other	387,131	512,997	259,072	178,377	11,754	78,718	1,428,049
Depreciation and Amortization	1,220,210	1,255,662	722,250	359,741	66,685	551,955	4,176,503
Travel	134,929	191,562	27,624	172,634	18,365	543,283	1,088,397
Other Expenses	725,601	396,291	296,826	309,644	41,969	44,056	1,814,387
Total expenses	<u>\$17,385,107</u>	<u>\$ 10,142,690</u>	<u>\$ 8,113,065</u>	<u>\$ 4,956,070</u>	<u>\$ 1,781,757</u>	<u>\$ 4,716,061</u>	<u>\$ 47,094,750</u>

See accompanying notes to financial statements.

# Chaminade University of Honolulu

Notes to Financial Statements  
June 30, 2020 and 2019

## 1. Organization and Summary of Significant Accounting Policies

### a. Organization

Chaminade University of Honolulu (the University) is a private, co-educational Catholic university established in 1955 by the Society of Mary, Marianists. The mission of the University is to prepare its students for professional careers and personal growth in an educational environment in the liberal arts tradition enriched by Catholic and Marianist values. The University offers classes that lead to Associate, Bachelors, Masters, and Professional Doctoral degrees.

The Marianist Center of Hawaii (MCH) is an autonomous, religious, not-for-profit Hawaii corporation established and controlled by the Society of Mary, Marianists, a Roman Catholic Institute of Consecrated Life, which owns, holds, and manages the land and certain of the buildings of the University's Kalaepohaku (Honolulu) campus used for the promotion and maintenance of its charitable, educational, and religious purposes. The University shares its campus with Saint Louis School (SLS), an affiliated college preparatory school for boys and young men.

### b. Basis of Accounting

Net assets and revenues, gains and other support, expenditures, and other deductions are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the University and changes therein are classified and reported as follows:

*Net Assets Without Donor Restrictions* – Net assets not subject to donor-imposed stipulations over which the Board of Regents (Board) has discretionary control.

Net assets without donor restrictions that are designated by the Board to be invested for long term use are considered to be quasi-endowment funds. The Board has the right to decide at any time to expend such funds.

*Net Assets With Donor Restrictions* – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the University and/or the passage of time. Contributions with donor-imposed restrictions are reported as donor restricted support. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, donor restricted net assets are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

# **Chaminade University of Honolulu**

Notes to Financial Statements

June 30, 2020 and 2019

## **1. Organization and Summary of Significant Accounting Policies (continued)**

### **b. Basis of Accounting (continued)**

Net assets subject to donor-imposed stipulations that must be maintained permanently are also included in net assets with donor restrictions. The donors of these assets permit the University to use all of the income earned on related investments for general or specific purposes.

### **c. Cash and Cash Equivalents**

For purposes of the statements of cash flows, the University considers all highly liquid instruments with original maturities of three months or less to be cash equivalents, unless they are purchased with resources that have donor-imposed restrictions that limit their use to long-term investment.

### **d. Restricted Cash Equivalents**

Restricted cash equivalents include amounts deposited in money market funds, which are restricted by legal or contractual requirements associated with the servicing of the University's tax-exempt special-purpose revenue bonds and related bond reserves.

### **e. Student Receivables**

Student accounts receivable which includes tuition and fees, are stated at amounts due from students, net of an allowance for doubtful accounts. Receivables which are outstanding longer than the contractual payment terms are considered past due. The University determines its allowance by considering a number of factors, including the length of time accounts receivable are past due, the University's previous loss history, the student's current ability to pay its obligation to the University, and the condition of the general economy and the industry as a whole. The University writes off accounts receivable when they become uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts. As of June 30, 2020 and 2019, an allowance for doubtful accounts of approximately \$458,000 and \$700,000, respectively, was recorded.

# **Chaminade University of Honolulu**

Notes to Financial Statements  
June 30, 2020 and 2019

## **1. Organization and Summary of Significant Accounting Policies (continued)**

### **f. Investments**

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value in the statements of financial position with unrealized gains and losses included in the statements of activities.

Gains and losses on investments are reported in the statements of activities as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulations or by law.

Donated investments and in-kind gifts are stated at fair value at the date of donation.

### **g. Land, Buildings, Improvements, and Equipment**

Buildings, improvements, and equipment are capitalized at cost, if purchased, or at fair market value at the date of donation. Depreciation is calculated on the straight-line basis over the estimated useful lives of the assets. The estimated useful lives are as follows:

Buildings and building improvements	10 to 30 years
Furniture, fixtures, and equipment	5 to 10 years

The University reports gifts of buildings and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the University reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

# Chaminade University of Honolulu

Notes to Financial Statements  
June 30, 2020 and 2019

## 1. Organization and Summary of Significant Accounting Policies (continued)

### h. Other Assets

Other assets include approximately \$3,105,000 and \$3,218,000 of prepaid rent related to land leased from SLS and the usage of SLS athletic facilities and various lease deposits (see Note 12e for further description of the lease terms) as of June 30, 2020 and 2019, respectively. The prepaid rent is amortized to rent expense over the term of the lease.

### i. Bond Issue Cost and Premium

The cost of issuing bonds are deferred and amortized to interest expense using the straight-line method, which approximates the effective interest method, over the term of the debt. Unamortized bond issuance costs are offset against the related bonds payable at June 30, 2020 and 2019. Amortization expense for the years ended June 30, 2020 and 2019 amounted to approximately \$22,200.

Bond premium is amortized ratably over the term of the related bond using the effective interest method, and the unamortized balance is reported as an offset to the related bond payable liability in the accompanying statements of financial position. Bond premium amortization for the years ended June 30, 2020 and 2019 amounted to approximately \$8,500.

### j. Revenue Recognition

*Private and federal grants and contracts*—Revenues from private and federal grants and contracts are recognized when allowable expenditures are incurred under such agreements.

*Tuition and educational fees, net*—Student tuition and educational fees are recorded as revenues in the fiscal year the related academic services are rendered. Student tuition and educational fees received in advance of services to be rendered are recorded as deferred revenue. Financial aid provided by the University for tuition and educational fees is reflected as a reduction of tuition and educational fees. Financial aid does not include payments made to students for services provided to the University. Students who adjust their course load or withdraw within the first three weeks of the academic term may receive a full or partial refund in accordance with the University's refund policy. Refunds reduce the amount of revenue recognized. Payments for tuition are due the first day at the start of the academic term.

# Chaminade University of Honolulu

Notes to Financial Statements  
June 30, 2020 and 2019

## 1. Organization and Summary of Significant Accounting Policies (continued)

### j. Revenue Recognition (continued)

The following table presents the University's revenues disaggregated by the nature of services for the years ended June 30, 2020 and 2019:

Tuition and fees, net:	2020	2019
Tuition	\$ 44,879,164	\$ 43,777,641
Fees	1,129,192	1,062,816
Discounts and scholarships	(15,077,659)	(14,859,332)
Total tuition and fees, net	<u>\$ 30,930,697</u>	<u>\$ 29,981,125</u>
Auxiliary enterprises:		
Housing	\$ 2,047,151	\$ 2,106,203
Dining, athletics, and other	1,276,157	1,413,849
Total auxiliary enterprises	<u>\$ 3,323,308</u>	<u>\$ 3,520,052</u>

The following table depicts activities for deferred revenue related to advanced tuition and other deferred revenue:

	Balance at June 30, 2019	Refunds Issued	Revenue Recognized	Cash Received in Advance of Performance	Balance at June 30, 2020
Tuition	\$ 1,392,610	\$ (2,646)	\$ 1,389,964	\$ 1,176,115	\$ 1,176,115
Other	66,809	-	66,809	44,540	44,540
Total	<u>\$ 1,459,419</u>	<u>\$ (2,646)</u>	<u>\$ 1,456,773</u>	<u>\$ 1,220,655</u>	<u>\$ 1,220,655</u>
	Balance at June 30, 2018	Refunds Issued	Revenue Recognized	Cash Received in Advance of Performance	Balance at June 30, 2019
Tuition	\$ 1,231,429	\$ (2,166)	\$ 1,229,263	\$ 1,392,610	\$ 1,392,610
Other	89,079	-	89,079	66,809	66,809
Total	<u>\$ 1,320,508</u>	<u>\$ (2,166)</u>	<u>\$ 1,318,342</u>	<u>\$ 1,459,419</u>	<u>\$ 1,459,419</u>

# **Chaminade University of Honolulu**

Notes to Financial Statements  
June 30, 2020 and 2019

## **1. Organization and Summary of Significant Accounting Policies (continued)**

### **j. Revenue Recognition (continued)**

The balance of deferred revenue at June 30, 2020 will be recognized over the academic term as services are rendered during the year ending June 30, 2021. The balance of deferred revenue at June 30, 2019 has been recognized over the academic term as services were rendered during the year ending June 30, 2020.

### **k. Contributions**

Unconditional promises to give (pledges receivable) that are expected to be collected within one year are recorded at net realizable value. Pledges receivable that are expected to be collected in future years are recorded at the present value of their estimated future cash flows using risk-free interest rates in the year in which the pledges are made. Amortization of the discounts is included in private gifts and grants revenue in the statements of activities. The University provides an allowance for uncollectible pledges based upon its best estimate of the amount of probable credit losses.

The University records conditional restricted pledges upon satisfaction of their conditions.

In 2016, the University received a conditional restricted pledge of approximately \$5,272,000 from Kamehameha Schools, a third-party educational trust. In 2018, the University received an amendment to the original pledge to include an additional conditional restricted pledge of approximately \$5,287,000. The University will recognize a pledge receivable for variable installment payments on an annual basis upon the satisfaction of the conditions of the restricted pledge.

At June 30, 2020 and 2019, the University recognized pledges receivable due from Kamehameha Schools of approximately \$2,606,000 and \$2,407,000, respectively. These amounts, which were subsequently received, were recorded as pledges receivable and donor restricted contributions on the statements of net assets and statements of activities as of and for the years ended June 30, 2020 and 2019.

### **l. Endowment**

The University's endowment consists of 77 individual funds established for a variety of purposes at June 30, 2020 and 2019. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

# Chaminade University of Honolulu

Notes to Financial Statements  
June 30, 2020 and 2019

## 1. Organization and Summary of Significant Accounting Policies (continued)

### 1. Endowment (continued)

The University is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA). The University has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies as permanently maintained net assets with donor restrictions: (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment funds are held as such until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- a. The duration and preservation of the fund
- b. The purposes of the organization and the donor-restricted endowment fund
- c. General economic conditions
- d. The possible effect of inflation and deflation
- e. The expected total return from income and the appreciation of investments
- f. Other resources of the organization
- g. The investment policies of the organization.

The University has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. The Investment Sub-Committee of the Board of Regents' Finance Committee has the responsibility to periodically review the Investment Policy, to ensure that it is in accordance with the objectives of the University. The University's goal is to protect, over the long-term, the future purchasing power of the managed funds by earning a net of fees return of 5.0% in excess of the long-term inflation rate.

# Chaminade University of Honolulu

Notes to Financial Statements  
June 30, 2020 and 2019

## 1. Organization and Summary of Significant Accounting Policies (continued)

### l. Endowment (continued)

The University's goal is to select an asset allocation which can reasonably be expected to earn the required rate of total return while assuming a risk no greater than that of a "standard" endowment portfolio when projected over a five-year period. The University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The University targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The University has a policy of appropriating for spending 3.5% of the year end market value. The policy also accounts for an annual increase of 2.5% in spending from the prior year (spending is frozen if more than 5%, and reset to 3.5%, if less than 3% of the year end market value).

In establishing this policy, the University considered the long-term expected return on its endowment. Accordingly, over the long term, the University expects the current spending policy to allow its endowment to maintain the future purchasing power of the endowment assets as well as to provide additional real growth through new gifts and investment return.

At June 30, 2020 and 2019, total interfund financing of approximately \$4,253,000 and \$4,361,000, respectively, was outstanding from unrestricted operating funds. Repayment of the outstanding amounts due to the endowment fund are made quarterly through a combination of interest-only and principal payments with annual interest rates between 3.9% and 5.0%, and maturities between June 2021 and April 2034.

### m. Impairment of Long-Lived Assets

Long-lived assets, such as buildings, improvements, and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

# **Chaminade University of Honolulu**

Notes to Financial Statements  
June 30, 2020 and 2019

## **1. Organization and Summary of Significant Accounting Policies (continued)**

### **n. Use of Estimates**

The preparation of the financial statements requires management of the University to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, gains, and other support and expenditures during the period. Significant items subject to such estimates and assumptions include the carrying amounts of donated buildings, improvements and equipment, obligations under the University's power purchase agreement, fair value of financial instruments, and valuation allowances for receivables. Actual results could differ from those estimates. It is reasonably possible that the estimates made in the financial statements could be impacted in the near term as a result of the conditions described in Note 10.

### **o. Concentrations of Credit Risk**

Financial instruments that potentially subject the University to concentrations of credit risks primarily consist of temporary cash investments and student and pledges receivable. The University maintains its cash, cash equivalents, and restricted cash equivalents in bank deposit accounts, which at times may exceed federally insured limits. Deposit accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000 per account holder. The University had approximately \$11,078,000 and \$6,147,000 in excess of federally-insured limits at June 30, 2020 and 2019, respectively. Management believes that the University is not exposed to any significant credit risk related to cash and cash equivalents.

At June 30, 2020 and 2019, approximately 61% and 46% of pledges receivable were due from one donor, respectively. The University maintains contact with donors throughout the year to identify and record an allowance for uncollectible pledges as they become known.

### **p. Income Taxes**

The University has received a determination from taxing authorities that its stated purpose is tax exempt as described in Section 501(c)(3) of the Internal Revenue Code and that contributions to the University are deductible for tax purposes by the donor, subject to the normal limitations imposed by the aforementioned authorities.

# **Chaminade University of Honolulu**

Notes to Financial Statements  
June 30, 2020 and 2019

## **1. Organization and Summary of Significant Accounting Policies (continued)**

### **p. Income Taxes (continued)**

In evaluating a tax position for recognition, management judgmentally evaluates whether it is more-likely-than-not that a tax position will be sustained upon examination, including resolution of related appeals or litigation processes, based on the technical merits of the position. If the tax position meets the more-likely-than-not recognition threshold, the tax position is measured and recognized in the University's financial statements as the largest amount of tax benefit that, in management's judgment, is greater than 50% likely of being realized upon ultimate settlement.

The University has evaluated its tax positions and determined that there were no uncertain tax positions at June 30, 2020 and 2019. Interest and penalties, if any (none in 2020 or 2019), are included in institutional support expenses.

### **q. Functional Allocation of Expenses**

The financial statements report certain categories of expenses that are attributable to one or more programs or supporting functions of the University. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. Significant expenses that are allocated include depreciation, rentals, and utilities, which are allocated on a square footage basis, as well as salaries and benefits, which are allocated on the basis of time and effort.

# Chaminade University of Honolulu

Notes to Financial Statements  
June 30, 2020 and 2019

## 1. Organization and Summary of Significant Accounting Policies (continued)

### r. Recently Issued Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02 *Leases* (Topic 842). The guidance in this ASU supersedes the leasing guidance in Topic 840 Leases. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. In July 2018, the FASB issued ASU 2018-011 *Leases* (Topic 842). Under this new guidance, an additional (and optional) transition method has been provided. When the new lease standard is adopted, a cumulative-effect adjustment to the opening balance of net assets is permitted. In June 2020 the FASB issued ASU 2020-05 *Leases* (Topic 842) which defers for one year, the effective date of ASU 2016-02 in order to provide immediate, near-term relief for certain entities for whom these updates are either currently effective or imminently effective. The guidance for ASU 2016-02 will be effective for the fiscal year ending June 30, 2021. The University is currently assessing the impact of the new guidance on its financial position and results of operations and has not determined if the adoption will have a material effect on its financial statements.

In June 2016, the FASB issued ASU 2016-13 *Financial Instruments – Credit Losses* (Topic 326): *Measurement of Credit Losses on Financial Instruments*. The guidance in this ASU establishes a requirement to measure credit losses at the inception of a financial instrument based on the net amount management expects to be collect. The measurement of all expected credit losses is based on historical experience, current conditions, and reasonable and supportable forecasts. The ASU will be effective for the University's fiscal year ending June 30, 2022. The University is currently assessing the impact of ASU 2016-13 on its financial position and results of operations and has not determined if the adoption will have a material effect on its financial statements.

# Chaminade University of Honolulu

Notes to Financial Statements  
June 30, 2020 and 2019

## 1. Organization and Summary of Significant Accounting Policies (continued)

### r. Recently Issued Accounting Pronouncements (continued)

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. This ASU requires that a not-for-profit present contributed nonfinancial assets as a separate line items in the statement of activities, apart from contributions of cash and other financial assets. It also requires a not-for-profit to disclose a disaggregation of the amount of contributed nonfinancial assets recognized within the statement of activities by category that depicts the type of contributed nonfinancial assets and qualitative disclosures for each disaggregated category. The amendments in this ASU should be applied on a retrospective basis and are effective for the University's fiscal year ending June 30, 2022. Early adoption is permitted. The University is currently assessing the impact of ASU 2020-07 on its financial position and results of operations and has not determined if the adoption will have a material effect on its financial statements.

## 2. Pledges Receivable

Pledges receivable consist of the following as of June 30, 2020 and 2019:

	2020	2019
Contributions to be received within 1 year	\$ 3,209,452	\$ 3,569,382
Contributions to be received in 1 to 5 years	145,000	710,000
Contributions to be received in more than 5 years	900,501	900,501
	4,254,953	5,179,883
Less discount at 2.95% in 2020 and 2019	(187,267)	(207,704)
	<u>\$ 4,067,686</u>	<u>\$ 4,972,179</u>

There is no allowance for uncollectible pledges receivable at June 30, 2020 and 2019.

# Chaminade University of Honolulu

Notes to Financial Statements  
June 30, 2020 and 2019

### 3. Investments

Investments consist of the following as of June 30, 2020 and 2019:

	2020	2019
Mutual and exchange traded funds	\$ 17,330,010	\$ 16,032,709
U.S. government debt securities	1,325,498	1,450,122
Corporate debt securities	907,089	1,161,523
Money market funds	347,565	393,430
Total investments	<u>\$ 19,910,162</u>	<u>\$ 19,037,784</u>

### 4. Fair Value Measurements

The FASB Accounting Standards Codification Topic 820 (ASC 820) establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

The three levels of the fair value hierarchy under ASC 820 are described below:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the University has the ability to access.

Level 2: Inputs to the valuation methodology include:

- Quoted prices for identical or similar assets or liabilities in active or inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- 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 to the valuation methodology are unobservable and significant to the fair value measurement.

# Chaminade University of Honolulu

Notes to Financial Statements  
June 30, 2020 and 2019

## 4. Fair Value Measurements

The financial asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. There were no changes to the methodologies used to determine fair value or transfers of items between levels for the years ended June 30, 2020 and 2019.

The following summarizes financial assets measured at fair value on a recurring basis as of June 30, 2020 and 2019, segregated by the level of the valuation inputs within the fair value of hierarchy utilized to measure fair value:

	Level 1	Level 2	Level 3	Total
2020:				
Mutual and exchange traded funds:				
Blended	\$ 11,897,243	\$ -	\$ -	\$ 11,897,243
Diversified emerging markets	2,191,504	-	-	2,191,504
Fixed income	1,960,181	-	-	1,960,181
U.S. equity growth	1,281,082	-	-	1,281,082
Total mutual and exchange traded funds	<u>17,330,010</u>	<u>-</u>	<u>-</u>	<u>17,330,010</u>
Money market funds	347,565	-	-	347,565
U.S. government debt securities	-	1,325,498	-	1,325,498
Corporate debt securities	-	907,089	-	907,089
	<u>\$ 17,677,575</u>	<u>\$ 2,232,587</u>	<u>\$ -</u>	<u>\$ 19,910,162</u>
2019:				
Mutual and exchange traded funds:				
Blended	\$ 10,534,769	\$ -	\$ -	\$ 10,534,769
Diversified emerging markets	3,336,193	-	-	3,336,193
Fixed income	2,161,747	-	-	2,161,747
Total mutual and exchange traded funds	<u>16,032,709</u>	<u>-</u>	<u>-</u>	<u>16,032,709</u>
Money market funds	393,430	-	-	393,430
U.S. government debt securities	-	1,450,122	-	1,450,122
Corporate debt securities	-	1,161,523	-	1,161,523
	<u>\$ 16,426,139</u>	<u>\$ 2,611,645</u>	<u>\$ -</u>	<u>\$ 19,037,784</u>

# Chaminade University of Honolulu

Notes to Financial Statements  
June 30, 2020 and 2019

## 4. Fair Value Measurements (continued)

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties. The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

*Cash and Cash Equivalents; Receivables; Accounts Payable and Accrued Expenses; Accrued Payroll; Advance Tuitions and Other Deferred Revenues; Deposits Held in Custody for Others* – the carrying values approximate fair values due to the short maturity of these instruments or the use of market rates to discount the related cash flows.

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

*Mutual and exchange traded funds* are stated at fair value using quoted market prices or based on quoted prices obtained for similar assets.

*Money market funds* are determined using the net asset value reported on the active market on which the funds are traded.

*U.S. Government and corporate debt securities* are estimated using a market approach valuation technique that considers, among other things, credit information, observed market movements and sector news.

The University's policy is to transfer assets and liabilities into Level 3 when a significant input cannot be corroborated with market observable data. This may include circumstances in which market activity has dramatically decreased and transparency to underlying inputs cannot be observed, current prices are not available or substantial price variances in quotations among market participants exist. Transfers of assets and liabilities into or out of Level 3 are recognized at their fair values as of the end of each reporting period, consistent with the date of the determination of fair value. At June 30, 2020 and 2019, the University had no transfers into or out of Level 3.

# Chaminade University of Honolulu

Notes to Financial Statements  
June 30, 2020 and 2019

## 4. Fair Value Measurements (continued)

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

## 5. Land, Buildings, Improvements, and Equipment

Land, buildings, improvements, and equipment consist of the following at June 30, 2020 and 2019:

	2020	2019
Land	\$ 637,000	\$ 637,000
Building and building improvements	94,223,459	92,414,516
Furniture, fixtures, and equipment	16,684,299	15,944,471
	111,544,758	108,995,987
Less accumulated depreciation and amortization	(52,000,245)	(47,983,833)
	59,544,513	61,012,154
Construction in progress	49,991	1,279,396
	<u>\$ 59,594,504</u>	<u>\$ 62,291,550</u>

Depreciation and amortization expense for the years ended June 30, 2020 and 2019 was \$4,050,686 and \$4,176,503, respectively.

## 6. Long Term Debt

### a. Bonds Payable

The State of Hawaii constitution allows independent educational institutions the ability to issue tax-exempt State of Hawaii Special-Purpose Revenue Board (SPRB) bonds for the purpose of capital improvements.

# Chaminade University of Honolulu

Notes to Financial Statements  
June 30, 2020 and 2019

## 6. Long Term Debt (continued)

### a. Bonds Payable (continued)

The University's issuance of SPRB Series 2015 bonds was completed in December 2015 for \$20,255,000 and \$2,340,000 at a total premium of \$245,503. Management's objective for the issuance of the bonds was for the purpose of supporting various capital projects, repurchasing the SPRB Series 2006 bonds, and for funding a future debt service reserve. The series consists of term bonds with fixed interest rates ranging from 5.0% to 5.5% and maturing at various dates between January 1, 2022 and January 1, 2045. These obligations are secured by all tuition and fees received by the University, certain property, and by restricted cash equivalents. These obligations also include certain restrictive covenants with which the University was in compliance at June 30, 2020 and 2019.

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

	2020	2019
Bonds payable	\$ 21,100,000	\$ 21,515,000
Unamortized bond premium	207,408	215,874
Unamortized issuance costs	(543,798)	(565,994)
	<u>\$ 20,763,610</u>	<u>\$ 21,164,880</u>

Interest expense on bonds payable amounted to \$1,070,638 and \$1,092,913 for the years ended June 30, 2020 and 2019, respectively.

Future maturities of the University's bonds payable as of June 30, 2020 are as follows:

Years ending June 30,	Principal	Interest	Total
2021	\$ 440,000	\$ 1,059,225	\$ 1,499,225
2022	460,000	1,035,025	1,495,025
2023	490,000	1,010,000	1,500,000
2024	510,000	985,500	1,495,500
2025	540,000	960,000	1,500,000
Thereafter	18,660,000	11,288,500	29,948,500
	<u>\$ 21,100,000</u>	<u>\$ 16,338,250</u>	<u>\$ 37,438,250</u>

# Chaminade University of Honolulu

Notes to Financial Statements  
June 30, 2020 and 2019

## 6. Long Term Debt (continued)

### b. Line of Credit

The University has a \$6 million line of credit agreement with a bank available through January 2021 which bears interest at the bank's prime rate (3.25% at June 30, 2020), and secured by accounts receivable, equipment and general intangibles. There was no amount outstanding as of June 30, 2020 and 2019.

There was no capitalized interest on notes payable for the years ended June 30, 2020 and 2019.

## 7. Endowments

The University's endowment funds consist of the following at June 30, 2020 and 2019:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
2020:			
Donor-restricted funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	\$ -	\$ 14,847,835	\$ 14,847,835
Accumulated investment gains	-	5,624,050	5,624,050
	<u>\$ -</u>	<u>\$ 20,471,885</u>	<u>\$ 20,471,885</u>
2019:			
Donor-restricted funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	\$ -	\$ 14,587,237	\$ 14,587,237
Accumulated investment gains	-	5,440,808	5,440,808
	<u>\$ -</u>	<u>\$ 20,028,045</u>	<u>\$ 20,028,045</u>

# Chaminade University of Honolulu

Notes to Financial Statements  
June 30, 2020 and 2019

## 7. Endowments (continued)

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the University to retain as a fund of perpetual duration. In accordance with FASB ASC Topic 958-205-45, deficiencies of this nature that are reported in net assets with donor restrictions were nil as of June 30, 2020 and 2019, respectively.

During the years ended June 30, 2020 and 2019, the University had the following endowment-related activities:

	Without Donor Restrictions	With Donor Restrictions	Total
2020:			
Beginning of year	\$ -	\$ 20,028,045	\$ 20,028,045
Investment return, net	-	515,329	515,329
Contributions	-	257,398	257,398
Appropriations for expenditures	-	(328,887)	(328,887)
	<u>\$ -</u>	<u>\$ 20,471,885</u>	<u>\$ 20,471,885</u>
	Without Donor Restrictions	With Donor Restrictions	Total
2019:			
Beginning of year	\$ -	\$ 19,047,211	\$ 19,047,211
Investment return, net	-	830,011	830,011
Contributions	-	525,427	525,427
Appropriations for expenditures	-	(374,604)	(374,604)
	<u>\$ -</u>	<u>\$ 20,028,045</u>	<u>\$ 20,028,045</u>

## Chaminade University of Honolulu

Notes to Financial Statements  
June 30, 2020 and 2019

### 8. Net Assets With Donor Restrictions

Net assets are released from donor restrictions primarily by incurring expenses that satisfy the restricted purposes. Net assets released from restrictions during the years ended June 30, 2020 and 2019 and the remaining balance of net assets with donor restrictions as of June 30, 2020 and 2019 is as follows:

	2020		2019	
	Restriction Released	Available Balance	Restriction Released	Available Balance
Purpose of restriction:				
Financial aid, scholarships and awards	\$ 2,466,165	\$ 18,663,308	\$ 2,714,005	\$ 18,469,841
Instructional support and other	2,007,077	3,839,070	2,134,180	3,114,501
Buildng improvements and equipment acquisitions	135,919	3,126,424	854,086	3,146,886
Interest in net assets of Chaminade University Educational Foundation	-	1,621,672	-	1,477,636
	<u>\$ 4,609,161</u>	<u>\$ 27,250,474</u>	<u>\$ 5,702,271</u>	<u>\$ 26,208,864</u>

All endowment funds are classified as net assets with donor restrictions. The net assets restricted for financial aid, scholarships and awards include original donor-restricted endowment gift amounts of approximately \$12,699,000 and \$12,438,000, as of June 30, 2020 and 2019, respectively, and accumulated endowment investment gains of approximately \$5,021,000 and \$4,819,000, as of June 30, 2020 and 2019, respectively. The net assets restricted for building improvements and equipment acquisitions include original donor-restricted endowment gift amounts of approximately \$2,149,000 as of June 30, 2020 and 2019, and accumulated endowment gains of approximately \$603,000 and \$622,000, as of June 30, 2020 and 2019, respectively. There are no accumulated investment gains related to non-endowment funds.

# Chaminade University of Honolulu

Notes to Financial Statements  
June 30, 2020 and 2019

## 9. Liquidity

The University's financial assets available within one year of June 30, 2020 and 2019 for general expenditures are as follows:

	<u>2020</u>	<u>2019</u>
Financial Assets:		
Cash and cash equivalents	\$ 8,705,740	\$ 3,906,710
Restricted cash and cash equivalents	2,342,564	2,311,303
Accounts receivable	7,286,266	7,979,718
Interest in net assets of CUEF	1,621,672	1,477,636
Investments	<u>19,910,162</u>	<u>19,037,784</u>
Financial assets, at year end	39,866,404	34,713,151
Less those unavailable for general expenditure within one year, due to:		
Pledge receivable not collectible within 1 year	(1,045,501)	(1,610,501)
Restricted for debt service	(2,342,564)	(2,311,303)
Donor-imposed restrictions	<u>(27,250,474)</u>	<u>(26,208,864)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 9,227,865</u>	<u>\$ 4,582,483</u>

The University is supported mainly through tuition revenues, grants, fundraising, and private contributions. This includes donor restricted contributions. The University must maintain sufficient resources to meet the restricted purpose of those contributions. As a result, certain financial assets may not be available for general expenditures within one year. As part of the University's liquidity management, it has a policy to structure its financial assets to be available as obligations from day to day operations become due. Cash in excess of daily requirements are invested in short-term cash equivalents. In the event of unanticipated liquidity need, the University may draw upon a \$6 million line of credit (see Note 6b).

# Chaminade University of Honolulu

Notes to Financial Statements

June 30, 2020 and 2019

## 10. CARES Act

On March 10, 2020, the World Health Organization declared the coronavirus outbreak to be a pandemic. The coronavirus and actions taken around the world to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the environment in which the University operates. On March 27, 2020, the Coronavirus Aid, Relief and Economic Security Act (CARES Act) was enacted to amongst other provisions, provide emergency assistance for individuals, families and business affected by the coronavirus pandemic. While it is unknown how long these conditions will last and what the complete financial effect will be to the University, the University continues to monitor the situation including the financial effect to the University.

On April 20, 2020, the University received loan proceeds in the amount of \$4,171,800, under the Paycheck Protection Program (PPP) as part of the CARES Act. The promissory notes mature two years from the date of the first disbursement of the loan and bear interest at a rate of 1.00% per annum. The loan and accrued interest may be forgiven as long as the University uses the loan proceeds for eligible purposes, including payroll costs, during the 24 week period beginning on the date of first disbursement of the loan. The University has used the loan proceeds for purposes consistent with the PPP and believes that they have met the conditions for forgiveness of the loan. As of June 30, 2020, the University did not yet apply for forgiveness of the loan and has recorded the proceeds as notes payable on the statement of financial position.

In May 2020, the University received various CARES Act Higher Education Emergency Relief Funds (HEERF), which included the Student Portion, Institutional Portion, and Minority Serving Institutions portions of the HEERF grants. During the year ended June 30, 2020, the University obtained and expended HEERF Student Portion, Institutional Portion, and Minority Serving Institutions portions of approximately \$741,400, \$741,400, and \$546,000, respectively, which were included as federal grant revenue in the statement of activities.

# Chaminade University of Honolulu

Notes to Financial Statements  
June 30, 2020 and 2019

## 11. Commitments and Contingencies

### a. Operating Leases

The University is committed under operating lease agreements through 2023 for real property used for student housing. The leases provide that the University pay for property tax assessments, insurance, general excise taxes, and certain maintenance and operating expenses applicable to the leased premises. Certain lease agreements include an option to purchase the leased fee interest available at the University's option starting in 2017. These were not exercised during the years ended June 30, 2020 and 2019. Rent expense for the years ended June 30, 2020 and 2019 amounted to approximately \$375,000 and \$536,000.

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

Years ending June 30,	
2021	\$ 397,000
2022	409,000
2023	<u>34,000</u>
	<u>\$ 840,000</u>

### b. Capital Leases

During the year ended June 30, 2012, the University, MCH and SLS (collectively, the Partners), jointly entered into a long-term power purchase agreement to purchase the energy generated by a solar electric generating facility (the System). The System provides energy to various buildings occupied by the Partners and has a generation output of approximately 705,000 kilowatt-hours at June 30, 2020. The Partners are jointly obligated under the terms of the agreement to purchase all of the energy output of the equipment at a rate of approximately \$0.18 per kilowatt-hour, with an escalation of 3 percent per year for the term of 20 years (\$0.225 at June 30, 2020). The total amount paid by the Partners for the years ended June 30, 2020 and 2019 was approximately \$155,000 and \$156,000, respectively.

The agreement includes two purchase options for the System available at the Partners' option during the years ending June 30, 2022 and 2027 at a cost equal to the greater of the fair value of the equipment or \$1,370,000 and \$1,128,000, respectively.

# Chaminade University of Honolulu

Notes to Financial Statements  
June 30, 2020 and 2019

## 11. Commitments and Contingencies (continued)

### b. Capital Leases (continued)

The Partners have allocated the amounts due under the agreement among the University, SLS and MCH based on each party's share of the expected electricity usage. Management has estimated the University's portion of the future payments due under the agreement as of June 30, 2020 is approximately as follows:

Years ending June 30,	
2021	\$ 167,000
2022	171,000
2023	175,000
2024	179,000
2025	184,000
Thereafter	<u>1,329,000</u>
	<u>\$ 2,205,000</u>

The University has determined that the payments due under the agreement include an element related to the leasing of the System. As such, in accordance with ASC Topic 840, management has recognized a capital lease for the estimated payments related to the System.

The University also acquired certain office equipment under a capital lease, which expires in June 2022.

For financial reporting purposes, minimum lease rentals relating to capital leases have been capitalized using the University's incremental borrowing rate at the inception of the lease. Amortization of the capitalized cost of these leases is included in depreciation and amortization expense for the years ended June 30, 2020 and 2019 and amounted to approximately \$153,000 and \$151,000, respectively.

# Chaminade University of Honolulu

Notes to Financial Statements  
June 30, 2020 and 2019

## 11. Commitments and Contingencies (continued)

### b. Capital Leases (continued)

The following is a schedule of leased equipment under capital leases as of June 30, 2020 and 2019, which is included in furniture, fixtures, and equipment and related accumulated depreciation and amortization (see Note 5):

	2020	2019
Solar electric generating facility	\$ 2,195,929	\$ 2,195,929
Office equipment	207,480	207,480
	2,403,409	2,403,409
Less accumulated amortization	(1,064,453)	(904,231)
	<u>\$ 1,338,956</u>	<u>\$ 1,499,178</u>

Future minimum lease payments under capital leases and related interest expense as of June 30, 2020 are approximately as follows:

Years ending June 30,	
2021	\$ 217,000
2022	192,000
2023	175,000
2024	179,000
2025	184,000
Thereafter	<u>1,329,000</u>
Total minimum lease payments	2,276,000
Less: amount representing interest at 4.5%	<u>(514,000)</u>
Present value of net minimum lease payments	<u>\$ 1,762,000</u>

### c. Other Contract Commitments

The University is committed under construction contracts totaling approximately \$53,600 and \$342,000 at June 30, 2020 and 2019, respectively.

# **Chaminade University of Honolulu**

Notes to Financial Statements  
June 30, 2020 and 2019

## **11. Commitments and Contingencies (continued)**

### **c. Other Contract Commitments (continued)**

The University outsourced its bookstore operations in May 2014 to an independent third party. The outsourcing agreement continues through April 30, 2024 and may be renewed for an additional five year period subject to mutual agreement. Under the terms of the agreement, the University receives a variable percentage of gross sales from the operation of the bookstore, which is included in auxiliary enterprises in the accompanying statements of activities.

### **d. Litigation**

The University is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the University's financial position, results of operations, or liquidity.

## **12. Transactions with Affiliated Entities**

### **a. Marianist Center of Hawaii**

The land and certain buildings from which the University operates belong to MCH. In March 2006, the properties were leased to the University under a conditional lease agreement for a term of 50 years. The lease requires annual rent of \$1 and all taxes, assessments, and other charges applicable to the leased premises. The University has the option to extend the term of the lease for one additional 50-year period. For the years ended June 30, 2020 and 2019, the estimated fair value of the lease rent for the land and buildings has been determined by a real estate appraiser to be approximately \$2,783,900 and \$2,698,500, respectively, and is included in unrestricted private gifts and grants and in various expenditure classifications in the accompanying statements of activities.

### **b. Marianist Province of the United States**

In May 2018, The Marianist Province of the United States pledged a total of \$1.5 million, payable in three annual installments commencing in 2019, to establish a donor restricted endowment fund for student leadership. At June 30, 2020 and 2019, the pledge is included in pledge receivables on the accompanying statement of net assets and had a balance due of \$500,000 and \$1,000,000, respectively.

# **Chaminade University of Honolulu**

Notes to Financial Statements  
June 30, 2020 and 2019

## **12. Transactions with Affiliated Entities (continued)**

### **c. Chaminade University Educational Foundation**

The Chaminade University Educational Foundation (the Foundation), a charitable trust, was created exclusively to encourage, promote, and assist in the financing of the objectives and purpose of the University. Trustees are appointed by majority vote of the remaining trustees. The Foundation has received a determination from taxing authorities that its stated purpose is tax exempt as described in the Internal Revenue Code. The Foundation's board of trustees has sole discretion as to the timing and amounts of contributions of its net assets to the University. During the years ended June 30, 2020 and 2019, the University received donor restricted contributions from the Foundation of approximately \$75,000 and \$61,000, respectively.

### **d. Contributions**

Pledges receivable as of June 30, 2020 and 2019 include amounts from members of the Board totaling approximately \$45,000 and \$35,000, respectively. Contributions for the years ended June 30, 2020 and 2019 include amounts received from members of the Board totaling approximately \$148,000 and \$208,000, respectively.

### **e. Saint Louis School**

Effective January 1, 2017, an agreement was signed with SLS for the University to lease certain parcels of land from SLS on which the University constructed a locker and training building as well as for the use of various SLS athletic facilities. In consideration for the above, the University prepaid rent to SLS in the amount of \$450,000 relating to the land lease with a term of 40 years and \$3,050,000 relating to the use of SLS' athletic facilities with a lease term of 30 years. The \$3,500,000 will be amortized over the terms of the respective leases. The unamortized balance of approximately \$3,105,000 and \$3,218,000 is included in other assets on the statements of financial position as of June 30, 2020 and 2019, respectively.

The University shares its campus with SLS under the terms of the lease with MCH. Certain utilities and other shared costs of maintaining the campus are paid by the University and subsequently reimbursed by SLS. The reimbursements totaled approximately \$596,000 and \$699,000 for the years ended June 30, 2020 and 2019, respectively. The University had approximately \$32,000 and \$82,000 due from SLS included in other receivables on the statements of financial position as of June 30, 2020 and 2019, respectively.

# **Chaminade University of Honolulu**

Notes to Financial Statements  
June 30, 2020 and 2019

## **13. Employee Benefit Plan**

The University sponsors a contributory, defined contribution retirement plan for eligible career faculty and administrative employees. Plan contributions are based upon a percentage of each participant's total earnings and are funded by the University on a current basis. Contributions to the plan, net of any forfeitures, were approximately \$836,000 and \$808,000 for the years ended June 30, 2020 and 2019, respectively.

## **14. Subsequent Events**

The University has evaluated subsequent events through November 25, 2020, the date on which the financial statements were available to be issued, and it was determined that all subsequent events had been properly accounted for.