

The Episcopal Church in Hawai'i

Financial Statements

December 31, 2023 and 2022

The Episcopal Church in Hawai'i
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Independent Auditor's Report

To the Diocesan Council of
The Episcopal Church in Hawai'i

Qualified Opinion

I have audited the accompanying financial statements of The Episcopal Church in Hawai'i (the "Church")(a nonprofit organization) which comprise the statements of financial position as of December 31, 2023 and 2022, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements referred to above present fairly, in all material respects, the financial position of the Church as of December 31, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Qualified Opinion

As more fully described in Note 1 to the financial statements, the Church does not include in its financial statements the financial position and activities of subsidiary entities. In my opinion, accounting principles generally accepted in the United States of America require that the accounts of subsidiary entities be consolidated into the reporting entity's financial statements. The effects of the above matter on the accompanying financial statements have not been determined.

I conducted my audits in accordance with auditing standards generally accepted in the United States of America. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am required to be independent of the Church and to meet my other ethical responsibilities in accordance with the relevant ethical requirements relating to my audits. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Responsibilities of Management 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, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with generally accepted auditing standards, I:

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

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

James P. Hesselman, CPA, LLC

Honolulu, Hawai'i
December 20, 2024

The Episcopal Church in Hawai'i
Statement of Financial Position
December 31, 2023

| | Current Operations | Long-Term Investment | Plant | Total |
|---|-------------------------------|---------------------------------|---------------------|----------------------|
| Assets | | | | |
| Cash and cash equivalents | \$ 3,294,713 | \$ - | \$ - | \$ 3,294,713 |
| Certificates of deposit | 200,000 | - | - | 200,000 |
| Accounts receivable from parishes, missions and other | 87,902 | - | - | 87,902 |
| Prepaid expenses and other assets | 188,285 | - | - | 188,285 |
| Loans receivable from parishes, missions and other | 479,528 | - | - | 479,528 |
| Investments | - | 44,736,171 | - | 44,736,171 |
| Property and equipment | - | - | 2,815,947 | 2,815,947 |
| Assets held in trust by others | - | 2,538,194 | - | 2,538,194 |
| Total assets | <u>\$ 4,250,428</u> | <u>\$ 47,274,365</u> | <u>\$ 2,815,947</u> | <u>\$ 54,340,740</u> |
| Liabilities and Net Assets | | | | |
| Accounts payable and other accrued expenses | \$ 64,252 | \$ - | \$ - | \$ 64,252 |
| Due to parishes and other organizations | 77,701 | 21,608,150 | - | 21,685,851 |
| Security deposits | 9,855 | - | - | 9,855 |
| Annuity obligation | - | 6,930 | - | 6,930 |
| Notes payable | 439,528 | - | - | 439,528 |
| Accrued postretirement benefit cost | 322,403 | - | - | 322,403 |
| Total liabilities | <u>913,739</u> | <u>21,615,080</u> | <u>-</u> | <u>22,528,819</u> |
| Net Assets | | | | |
| Without donor restrictions | 2,715,528 | 7,675,046 | 2,815,947 | 13,206,521 |
| With donor restrictions | 621,161 | 17,984,239 | - | 18,605,400 |
| Total net assets | <u>3,336,689</u> | <u>25,659,285</u> | <u>2,815,947</u> | <u>31,811,921</u> |
| Total liabilities and net assets | <u>\$ 4,250,428</u> | <u>\$ 47,274,365</u> | <u>\$ 2,815,947</u> | <u>\$ 54,340,740</u> |

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

The Episcopal Church in Hawai'i
Statement of Financial Position
December 31, 2022

| | Current Operations | Long-Term Investment | Plant | Total |
|---|-------------------------------|---------------------------------|---------------------|----------------------|
| Assets | | | | |
| Cash and cash equivalents | \$ 533,913 | \$ - | \$ - | \$ 533,913 |
| Certificates of deposit | 400,000 | - | - | 400,000 |
| Accounts receivable from parishes, missions and other | 290,619 | - | - | 290,619 |
| Prepaid expenses and other assets | 162,345 | - | - | 162,345 |
| Loans receivable from parishes, missions and other | 204,043 | - | - | 204,043 |
| Investments | - | 42,335,598 | - | 42,335,598 |
| Property and equipment | - | - | 2,815,947 | 2,815,947 |
| Assets held in trust by others | - | 2,323,228 | - | 2,323,228 |
| Total assets | <u>\$ 1,590,920</u> | <u>\$ 44,658,826</u> | <u>\$ 2,815,947</u> | <u>\$ 49,065,693</u> |
| Liabilities and Net Assets | | | | |
| Accounts payable and other accrued expenses | \$ 29,686 | \$ - | \$ - | \$ 29,686 |
| Due to parishes and other organizations | 16,515 | 20,922,500 | - | 20,939,015 |
| Security deposits | 9,815 | - | - | 9,815 |
| Annuity obligation | - | 6,930 | - | 6,930 |
| Notes payable | 54,043 | - | - | 54,043 |
| Accrued postretirement benefit cost | 347,796 | - | - | 347,796 |
| Total liabilities | <u>457,855</u> | <u>20,929,430</u> | <u>-</u> | <u>21,387,285</u> |
| Net Assets | | | | |
| Without donor restrictions | 1,001,359 | 6,994,025 | 2,815,947 | 10,811,331 |
| With donor restrictions | 131,706 | 16,735,371 | - | 16,867,077 |
| Total net assets | <u>1,133,065</u> | <u>23,729,396</u> | <u>2,815,947</u> | <u>27,678,408</u> |
| Total liabilities and net assets | <u>\$ 1,590,920</u> | <u>\$ 44,658,826</u> | <u>\$ 2,815,947</u> | <u>\$ 49,065,693</u> |

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

The Episcopal Church in Hawai'i
Statement of Activities
Year Ended December 31, 2023

| | Without Donor Restrictions | With Donor Restrictions | Total |
|--|---|--|----------------------|
| Revenues, gains and other support | | | |
| Congregation assessments | \$ 1,329,410 | \$ - | \$ 1,329,410 |
| Insurance proceeds | 2,207,626 | - | 2,207,626 |
| Net realized and unrealized gains on investments | 535,916 | 1,112,163 | 1,648,079 |
| Contributions | 105,978 | 1,099,795 | 1,205,773 |
| Income on long-term investments | 164,799 | 341,364 | 506,163 |
| Apartment and parking rentals | 113,565 | - | 113,565 |
| Income from assets held in trust by others | 97,491 | 15,621 | 113,112 |
| Net change in value of assets held in trust by others | - | 214,966 | 214,966 |
| Interest | 22,435 | - | 22,435 |
| Other | 12,491 | - | 12,491 |
| Net assets released from restrictions | | | |
| Satisfaction of program requirements | 573,596 | (573,596) | - |
| Endowment spending policy appropriations | 471,990 | (471,990) | - |
| Total revenues, gains and other support | <u>5,635,297</u> | <u>1,738,323</u> | <u>7,373,620</u> |
| Expenses | | | |
| Program Expenses - ministry and mission support | 2,010,607 | - | 2,010,607 |
| Supporting Services | | | |
| Management and general | 907,713 | - | 907,713 |
| Payments to national Episcopal Church | 305,400 | - | 305,400 |
| Total expenses | <u>3,223,720</u> | <u>-</u> | <u>3,223,720</u> |
| Other income (losses) | | | |
| Postretirement benefit plan changes other than net periodic benefit cost | (16,387) | - | (16,387) |
| Change in net assets | <u>2,395,190</u> | <u>1,738,323</u> | <u>4,133,513</u> |
| Net assets | | | |
| Beginning of year | <u>10,811,331</u> | <u>16,867,077</u> | <u>27,678,408</u> |
| End of year | <u>\$ 13,206,521</u> | <u>\$ 18,605,400</u> | <u>\$ 31,811,921</u> |

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

The Episcopal Church in Hawai'i
Statement of Activities
Year Ended December 31, 2022

| | Without Donor Restrictions | With Donor Restrictions | Total |
|--|---|--|----------------------|
| Revenues, gains and other support | | | |
| Congregation assessments | \$ 1,341,860 | \$ - | \$ 1,341,860 |
| Net realized and unrealized losses on investments | (1,231,816) | (2,568,641) | (3,800,457) |
| Contributions | 11,374 | 110,693 | 122,067 |
| Income on long-term investments | 130,124 | 270,241 | 400,365 |
| Apartment and parking rentals | 147,885 | - | 147,885 |
| Income from assets held in trust by others | 99,149 | 16,078 | 115,227 |
| Net change in value of assets held in trust by others | - | (526,883) | (526,883) |
| Interest | 6,813 | - | 6,813 |
| Other | 13,300 | - | 13,300 |
| Net assets released from restrictions | | | |
| Satisfaction of program requirements | 61,445 | (61,445) | - |
| Endowment spending policy appropriations | 462,529 | (462,529) | - |
| Total revenues, gains and other support | <u>1,042,663</u> | <u>(3,222,486)</u> | <u>(2,179,823)</u> |
| Expenses | | | |
| Program Expenses - ministry and mission support | 1,010,897 | - | 1,010,897 |
| Supporting Services | | | |
| Management and general | 798,342 | - | 798,342 |
| Payments to national Episcopal Church | 294,100 | - | 294,100 |
| Total expenses | <u>2,103,339</u> | <u>-</u> | <u>2,103,339</u> |
| Other income (losses) | | | |
| Postretirement benefit plan changes other than net periodic benefit cost | (219,692) | - | (219,692) |
| Change in net assets | <u>(1,280,368)</u> | <u>(3,222,486)</u> | <u>(4,502,854)</u> |
| Net assets | | | |
| Beginning of year | <u>12,091,699</u> | <u>20,089,563</u> | <u>32,181,262</u> |
| End of year | <u>\$ 10,811,331</u> | <u>\$ 16,867,077</u> | <u>\$ 27,678,408</u> |

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

The Episcopal Church in Hawai'i
Statement of Functional Expenses
Year Ended December 31, 2023

| | Program Services | Management and General | Fundraising | Payments to National Episcopal Church | Total |
|--|---------------------|------------------------------|-------------|--|---------------------|
| Grants | \$ 791,463 | \$ - | \$ - | \$ - | \$ 791,463 |
| Salaries and wages | 578,638 | 325,878 | - | - | 904,516 |
| Employee benefits and payroll taxes | 160,298 | 126,028 | - | - | 286,326 |
| Postretirement plan credit | - | (41,780) | - | - | (41,780) |
| Audit support services | - | 33,213 | - | - | 33,213 |
| Legal services | - | 86,082 | - | - | 86,082 |
| Other professional services | 52,246 | 21,501 | - | - | 73,747 |
| Office expenses | 11,156 | 36,933 | - | - | 48,089 |
| Information technology | 18,767 | 15,624 | - | - | 34,391 |
| Occupancy | 13,887 | 83,994 | - | - | 97,881 |
| Rental property repair and maintenance | - | 152,450 | - | - | 152,450 |
| Meetings and programs | 80,244 | 1,424 | - | - | 81,668 |
| Travel | 127,431 | 29,545 | - | - | 156,976 |
| Insurance | 3,159 | 30,508 | - | - | 33,667 |
| Bad debt expense | 150,000 | - | - | - | 150,000 |
| Episcopal Church quota | - | - | - | 305,400 | 305,400 |
| Other | 23,318 | 6,313 | - | - | 29,631 |
| | <u>\$ 2,010,607</u> | <u>\$ 907,713</u> | <u>\$ -</u> | <u>\$ 305,400</u> | <u>\$ 3,223,720</u> |

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

The Episcopal Church in Hawai'i
Statement of Functional Expenses
Year Ended December 31, 2022

| | Program Services | Management and General | Fundraising | Payments to National Episcopal Church | Total |
|--|-----------------------------|---------------------------------------|--------------------|--|---------------------|
| Grants | \$ 246,715 | \$ - | \$ - | \$ - | \$ 246,715 |
| Salaries and wages | 473,973 | 271,428 | - | - | 745,401 |
| Employee benefits and payroll taxes | 138,119 | 114,898 | - | - | 253,017 |
| Postretirement plan credit | - | (70,361) | - | - | (70,361) |
| Audit support services | 36,139 | 35,070 | - | - | 71,209 |
| Legal services | - | 56,840 | - | - | 56,840 |
| Other professional services | 7,411 | 59,099 | - | - | 66,510 |
| Office expenses | 9,259 | 42,263 | - | - | 51,522 |
| Information technology | 17,292 | 18,779 | - | - | 36,071 |
| Occupancy | 22,525 | 108,025 | - | - | 130,550 |
| Rental property repair and maintenance | - | 29,208 | - | - | 29,208 |
| Meetings and programs | 44,873 | 6,354 | - | - | 51,227 |
| Travel | 10,965 | 90,267 | - | - | 101,232 |
| Insurance | 3,626 | 29,820 | - | - | 33,446 |
| Episcopal Church quota | - | - | - | 294,100 | 294,100 |
| Other | - | 6,652 | - | - | 6,652 |
| | <u>\$ 1,010,897</u> | <u>\$ 798,342</u> | <u>\$ -</u> | <u>\$ 294,100</u> | <u>\$ 2,103,339</u> |

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

The Episcopal Church in Hawai'i
Statements of Cash Flows
Years Ended December 31, 2023 and 2022

| | 2023 | 2022 |
|---|---------------------|-------------------|
| Cash flows from operating activities | | |
| Change in net assets | \$ 4,133,513 | \$ (4,502,854) |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities | | |
| Net unrealized and realized losses (gains) on investments | (1,648,079) | 3,800,457 |
| Change in value of assets held in trust by others | (214,966) | 526,883 |
| Bad debt expense | 150,000 | - |
| Contributions restricted to endowment | (65,216) | (52,434) |
| Change in receivables | 202,717 | 91,522 |
| Change in prepaid expenses and other | (25,900) | (104,835) |
| Change in accounts payable and other accrued expenses | 34,566 | (105,665) |
| Change in due to parishes and other organizations | 61,439 | (51,426) |
| Change in accrued postretirement benefit cost | (25,393) | 149,331 |
| Net cash provided by (used in) operating activities | <u>2,602,681</u> | <u>(249,021)</u> |
| Cash flows from investing activities | | |
| Proceeds from sale of investments | 34,798,374 | 43,953,655 |
| Purchases of investments | (33,971,234) | (43,689,388) |
| Received from parishes for investment in investment pool | 882,225 | 837,776 |
| Parish withdrawals and distributions from investment pool | (1,776,462) | (889,432) |
| Loans issued to parishes, missions and other | (450,000) | (150,000) |
| Collection of loans receivable | 24,515 | 16,725 |
| Maturities (purchases) of certificates of deposit | 200,000 | (200,000) |
| Net cash used in investing activities | <u>(292,582)</u> | <u>(120,664)</u> |
| Cash flows from financing activities | | |
| Proceeds from issuance of note payable | 400,000 | - |
| Payment of notes payable | (14,515) | (16,725) |
| Contributions to permanent endowment | 65,216 | 52,434 |
| Net cash provided by financing activities | <u>450,701</u> | <u>35,709</u> |
| Net increase (decrease) in cash and cash equivalents | 2,760,800 | (333,976) |
| Cash and cash equivalents | | |
| Beginning of year | <u>533,913</u> | <u>867,889</u> |
| End of year | <u>\$ 3,294,713</u> | <u>\$ 533,913</u> |
| Cash paid during the year for | | |
| Interest | \$ 14,778 | \$ 2,835 |

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

The Episcopal Church in Hawai'i

Notes to Financial Statements

December 31, 2023 and 2022

1. Summary of Significant Accounting Policies

Accounts and Records

The accompanying financial statements reflect the financial position, activities and cash flows of The Episcopal Church in Hawai'i (the "Church"), which represents the central administrative body for the various departments within the Church's organization in Hawai'i. The accounts and records of the Church do not reflect the financial position and activities of parishes and missions ("parishes") or institutions ("departments, schools and camps"), which conduct much of the activities of The Episcopal Church throughout the State of Hawai'i.

Generally accepted accounting principles (GAAP) establish a framework for determining when a not-for-profit reporting entity should consolidate the financial position and activities of another not-for-profit entity. The determining criterion for consolidation within the framework is whether the reporting entity has both control over and an economic interest in the other entity. Management has evaluated the criterion in relation to numerous organizations and determined that three entities meet the criterion for consolidation: St. Andrew's Schools, Camp Mokule'ia, and A Cup of Cold Water. Management has decided not to consolidate these entities and instead is presenting the financial position and activities of the Church on an unconsolidated basis. Accordingly, the Church's consolidation policy is not in accordance with GAAP.

Summarized financial information for these entities has not been provided as audited financial statements are not available.

Financial Statement Presentation

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The statements of financial position present the Church's assets, liabilities and net assets as follows:

Current Operations

Reflects assets, liabilities and net assets that result from day-to-day operations and are available to be expended currently.

Long-Term Investment

Primarily consists of assets held in an investment pool on behalf of the Church and its affiliated parishes, missions and other related organizations. A substantial portion of the Church's assets in the investment pool are donor restricted. Unrestricted assets in this pool have been designated by the board to be held for long-term investment.

Plant

Consists of the Church's real property, furniture, fixtures and equipment.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

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Notes to Financial Statements

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Cash Equivalents

The Church considers all highly liquid debt instruments, including short-term cash investments, purchased with an original maturity of three months or less to be cash equivalents, except for money market mutual funds held by the investment pool, which are considered to be investments. Certificates of deposit with original maturities of more than three months are classified separately from cash equivalents, and are carried at fair value as determined by the investment manager holding the certificates.

Receivables

Accounts and loans receivable are stated at the amounts owed to the Church by parishes and third parties. Receivables older than 60 days are considered past due and placed on nonaccrual status. An allowance for doubtful accounts is established when needed based on management's judgments about the collectability of receivables. Uncollectible receivables are written off when management determines the receivable will not be collected.

Investments

The Church, through its fund management advisors and custodians, maintains an investment pool on behalf of itself, parishes and other related organizations. Parish investment funds, which are commingled with the Church's investments and accounted for using a pooled unit system, are reflected as assets and liabilities on the statements of financial position.

Investments are reported at fair value. Fair value is the price that would be received to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date. Dividend income is recorded when received. Interest income is recorded on an accrual basis.

The Church's investment objective is to seek a return which allows it to meet its spending policy as well as provide inflation protection of its principal. The investment and spending policies work together to achieve this objective. Over the longer term, the objective is to earn a return of 4% above the rate of inflation (Consumer Price Index). Investment guidelines define asset allocation targets and ranges, with an emphasis on equity based investments. Investment performance is measured on both an absolute and relative basis compared to benchmark indexes.

The Church attempts to minimize credit risk by limiting its investments in debt securities to U.S. Treasury notes and bonds, and to high-quality corporate notes and bonds diversified among various issuers and industry groups. Additionally, the Church attempts to minimize market risk by diversifying its investments in common and preferred stock among various issuers and industry groups.

Investment securities, in general, are exposed to interest rate, market, credit and other risks depending on the nature of the specific investment. Accordingly, it is at least reasonably possible that these factors will result in changes in the value of the Church's investments, which could materially affect amounts reported in the financial statements.

Endowment Spending Policy

The Church has a policy of appropriating for distribution each year 4-5% of an endowment fund's average fair value over the prior twelve quarters through the calendar year-end preceding the fiscal year in which the distribution is planned. This policy is applied to those endowment funds that

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Notes to Financial Statements

December 31, 2023 and 2022

comprise the Church's budgetary endowment funds. Distributions from non-budgetary endowment funds are determined on a case by case basis. The Church expects its long-term investment return to be such that the endowment fund's purchasing power will be preserved while still allowing for annual distributions.

Property and Equipment

Diocesan real property is carried at cost or estimated fair value at date of donation. The component cost of land and buildings is unavailable as the records of the Church do not provide a detail of cost by category. Immaterial acquisitions costing less than \$5,000 of furniture, fixtures and equipment are expensed by the Church. Repairs and maintenance are expensed as incurred.

All depreciable assets have been fully depreciated and no further depreciation is recorded.

Management considers whether long-lived assets are impaired if events suggest that an impairment may exist. Impairments would be evaluated based on the cash flows expected to be generated by an asset relative to its carrying amount and any impairment loss would be based on the fair value of the asset. No impairment loss was recognized in 2023 or 2022.

Changes in estimates, based on market conditions and various other factors, may impact the future recoverability of the carrying value of long-lived assets.

The Church's Canons provide for the Church to serve as the custodian of record for certain real property and land lease agreements on behalf of individual parishes, missions and other affiliated organizations. Such real property, related lease obligations and asset retirement obligations are not reflected in the Church's financial statements since in substance, the individual parishes and other organizations are the beneficial owners of the real property and related lease agreements. Should the parishes and other organizations not be able to honor their commitments under these obligations, the Church may be contingently liable to do so.

Split-Interest Agreements

The Church recognizes split-interest agreements such as charitable remainder trusts, charitable gift annuities, charitable lead trusts and perpetual trusts when a donor purchases an annuity contract or makes an initial irrevocable gift to a trust in which the Church has a beneficial interest.

Under charitable gift annuity agreements whereby the Church serves as trustee, the Church recognizes the assets at fair value. The portion of these assets held for the benefit of others is carried at the estimated present value of future payments to be distributed over the donor's expected life based on Internal Revenue Service valuation tables, and is classified as an annuity obligation. The difference is recognized as contribution revenues in the year of the gift.

Assets held in trust by others represents assets held at fair value in charitable lead trusts and perpetual trusts by independent trustees and represent resources neither in the possession nor under the control of the Church, although the Church derives income from the assets of such trusts.

Notes Payable

Notes payable consist of loans and mortgages obtained by the Church for the benefit of parishes. Proceeds of notes are advanced to the parishes and the Church recognizes a receivable for those

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Notes to Financial Statements

December 31, 2023 and 2022

amounts. Interest expense accrued and paid under the notes are recognized by the parishes and reimbursed to the Church.

Net Assets

The statements of activities, as well as net assets presented in the statements of financial position, have been presented to reflect the Church's two net asset categories, which are based on donor restrictions. The net asset categories are as follows:

Net Assets Without Donor Restrictions – Net assets that are available for use in general operations and not subject to donor restrictions. Designations of net assets without donor restrictions have been made by the governing board to earmark certain net assets for long-term investment.

Net Assets With Donor Restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions could be perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both; or in the case of unspent endowment earnings, when such earnings have been appropriated for expenditure under the Church's spending policy. The Church's net assets with donor restrictions consist primarily of amounts restricted for specific program purposes, and endowment assets held for long-term investment that are available to support certain program and administrative expenses.

Contributions

Contributions received are recognized as revenues when the donor's commitment is received. The Church reports contributions as restricted support if they are received with donor stipulations that limit the use of the donated assets. Contributions received that contain both a performance barrier and a donor's right of refund if the performance barrier is not met are not recognized until the barrier has been satisfied.

Donated Items

Donated materials and services received in connection with the Church's program and management and general activities have not been recognized in the financial statements since these donations do not meet the recognition criteria under generally accepted accounting principles. The Church does not normally receive donated nonfinancial assets and, accordingly, disclosures related to such items are not provided.

Revenues

The Church's major revenues include the following:

Congregation Assessments

Represents payments to the Church from parishes to help fund the operations and programs of the Church. Assessments are accounted for as exchange transactions and are recorded in the period they become due. Assessments represent a significant source of support to the Church and assessments from one particular parish are in excess of ten percent of total parish assessments.

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December 31, 2023 and 2022

Apartment and Parking Rentals

Represents rental income from St. Andrew's Schools for rental of a parking lot, amounting to approximately \$102,000 in 2023 and \$98,000 in 2022. Amounts are recognized in the period they become due.

Functional Allocation of Expenses

The costs of providing the Church's programs and other services have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Where applicable, costs that are readily identifiable to a function are directly charged to that function. Other costs have been allocated among the programs and supporting services benefited. Allocated costs include personnel compensation and benefits, office expense, and information technology expense (allocated based on management's best estimate of personnel activity by function); and occupancy costs (allocated based on square footage and personnel utilization).

Program services represent those costs associated with supporting the ministry and mission of the Episcopal Church in Hawaii. This includes direct and indirect support to parishes, camps and missions in the State of Hawai'i. Management and general represents those costs associated with operational management, oversight of the Church's policies and procedures, management of the Church's investment portfolio, rental property expenses, and accounting and administrative activities. Fundraising costs are negligible and are not presented separately from management and general expenses.

Tax Status

The Episcopal Church in Hawai'i is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Management believes the Church does not have any uncertain tax positions. The tax years ended 2022, 2021, and 2020 are still open to examination for both federal and state purposes.

Concentrations of Credit Risks

The Church's cash balances are held with two financial institutions. Each account is covered by FDIC or SIPC insurance (\$250,000 limit per institution). Cash balances at December 31, 2023 and 2022 were in excess of available insurance coverage, however management does not believe the Church is exposed to any significant credit risk on cash balances. Accounts and loans receivable are with various parishes in Hawai'i.

Subsequent Events Review

Management has reviewed and considered whether events occurring after year end should be reflected or disclosed in these financial statements. The date through which this review was conducted was December 20, 2024, the date the financial statements were available to be issued.

2. Liquidity and Funds Available

The Church is supported substantially by congregation assessments and investment income. As part of the Church's liquidity management, the Church structures its financial assets to be available as its general operations, liabilities, and other obligations require. Financial assets available for

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Notes to Financial Statements
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general expenditure within one year at December 31, 2023 and 2022, comprise the following:

| | 2023 | 2022 |
|---|---------------------|---------------------|
| Cash and cash equivalents | \$ 3,294,713 | \$ 533,913 |
| Certificates of deposit | 200,000 | 400,000 |
| Accounts receivable | 87,902 | 290,619 |
| Accrued income | 167,667 | 152,602 |
| Loans receivable | 15,212 | 14,600 |
| Investments | | |
| Diocesan general fund | 527,684 | 478,826 |
| Appropriated for expenditure in coming year | 781,283 | 662,500 |
| Less: operating fund net assets with donor restrictions | <u>(621,161)</u> | <u>(131,706)</u> |
| | <u>\$ 4,453,300</u> | <u>\$ 2,401,354</u> |

Although the Church does not intend to spend from board-designated endowments without donor restrictions (other than amounts appropriated for general expenditure as part of the Church's annual budget approval and appropriation), these amounts could be made available if necessary, with board approval.

As part of its liquidity management plan, the Church invests operating funds in excess of daily requirements in certificates of deposit or in the investment fund.

3. Investments and Fair Value Measurements

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

- Level 1 inputs consist of unadjusted quoted prices in active markets such as stock exchanges for identical assets and have the highest priority;
- Level 2 inputs consist of significant other observable inputs such as quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset and liability, either directly or indirectly, for substantially the full term of the financial instrument;
- Level 3 inputs consist of significant unobservable inputs and include situations where there is little, if any, market activity for the investment. The inputs require significant judgment or estimates, such as those associated with discounted cash flow methodologies and appraisals. Level 3 inputs also include assets held in perpetual trusts that cannot be redeemed by the organization as beneficiary.

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The Church uses appropriate valuation techniques based on the available inputs to measure fair value. When available, the Church measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value.

Following is a description of the valuation methodologies used for assets at fair value. There have been no changes in the methodologies used at December 31, 2023 and 2022.

Equity Securities: Common stock and publicly traded master limited partnerships are valued at the closing price reported on active stock exchanges (Level 1). Preferred stock is valued primarily by pricing models that incorporate available trade, bid and other market information (Level 2).

Fixed Income Securities: This asset class consists of corporate and convertible bonds, and U.S. government securities. Such securities are valued primarily by pricing models that incorporate available trade, bid and other market information (Level 2).

Money market and other mutual funds: Valued at the closing price reported on active exchanges (Level 1).

Assets held in trust by others: These assets have been valued based on the Church's beneficial interest percentage in the trust assets, which consist of marketable securities (valued at fair value) held by and reported to the Church by third party trustees. These assets are classified as Level 3 pursuant to guidance issued by the American Institute of Certified Public Accountants, since the assets cannot be redeemed by the organization.

Certificates of Deposit: Valued based on amounts reported by the investment manager, which is based on market quotes for similar assets (Level 2).

Limited Partnership – Real Estate: Valued based on net asset value as reported by the general partner of the partnership. Underlying real estate investments are valued based on appraisals and are reported as Level 3 investments. Limited partnership interest has limited marketability and redemption attributes. Classified as Level 3.

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Notes to Financial Statements
December 31, 2023 and 2022

Fair values of assets measured on a recurring basis are as follows as of December 31, 2023:

| | Fair Value | Quoted Prices (Level 1) | Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---------------------------------------|----------------------|-------------------------------|--|--|
| Investments | | | | |
| Common stock | | | | |
| Basic materials | \$ 1,779,031 | \$ 1,779,031 | \$ - | \$ - |
| Capital goods/industrials | 399,226 | 399,226 | - | - |
| Consumer goods | 3,056,648 | 3,056,648 | - | - |
| Energy | 2,506,751 | 2,506,751 | - | - |
| Financials | 2,900,475 | 2,900,475 | - | - |
| Health care | 2,278,110 | 2,278,110 | - | - |
| Technology/info com | 3,716,368 | 3,716,368 | - | - |
| Other | 184,748 | 184,748 | - | - |
| Total common stock | <u>16,821,357</u> | <u>16,821,357</u> | - | - |
| Preferred stock | | | | |
| Capital and consumer goods | 265,530 | - | 265,530 | - |
| Utilities | 190,395 | - | 190,395 | - |
| Financials | 1,094,928 | - | 1,094,928 | - |
| Other | 79,741 | - | 79,741 | - |
| Total preferred stock | <u>1,630,594</u> | - | <u>1,630,594</u> | - |
| Limited partnership - real estate | 1,000,000 | - | - | 1,000,000 |
| Convertible corporate notes | 5,131,317 | - | 5,131,317 | - |
| Corporate notes and bonds | 8,090,043 | - | 8,090,043 | - |
| U.S. government securities | 9,027,579 | - | 9,027,579 | - |
| Money market mutual funds | 2,977,924 | 2,977,924 | - | - |
| Accrued income and other | 57,357 | - | 57,357 | - |
| Total investments | <u>\$ 44,736,171</u> | <u>\$ 19,799,281</u> | <u>\$ 23,936,890</u> | <u>\$ 1,000,000</u> |
| Certificates of deposit | <u>\$ 200,000</u> | <u>\$ -</u> | <u>\$ 200,000</u> | <u>\$ -</u> |
| Assets held in trust by others | <u>\$ 2,538,194</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 2,538,194</u> |

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Notes to Financial Statements
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Fair values of assets measured on a recurring basis are as follows as of December 31, 2022:

| | Fair Value | Quoted Prices (Level 1) | Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---------------------------------------|----------------------|-------------------------------|--|--|
| Investments | | | | |
| Common stock | | | | |
| Basic materials | \$ 1,782,599 | \$ 1,782,599 | \$ - | \$ - |
| Capital goods/industrials | 453,539 | 453,539 | - | - |
| Consumer goods | 2,763,136 | 2,763,136 | - | - |
| Energy | 2,185,452 | 2,185,452 | - | - |
| Financials | 2,324,822 | 2,324,822 | - | - |
| Health care | 2,489,235 | 2,489,235 | - | - |
| Technology/info com | 2,154,717 | 2,154,717 | - | - |
| Other | 441,968 | 441,968 | - | - |
| Total common stock | <u>14,595,468</u> | <u>14,595,468</u> | - | - |
| Preferred stock | | | | |
| Capital and consumer goods | 158,153 | - | 158,153 | - |
| Utilities | 502,258 | - | 502,258 | - |
| Financials | 1,021,152 | - | 1,021,152 | - |
| Other | 300,982 | - | 300,982 | - |
| Total preferred stock | <u>1,982,545</u> | - | <u>1,982,545</u> | - |
| Master limited partnerships | | | | |
| Energy | 62,024 | 62,024 | - | - |
| Utilities | 185,966 | 185,966 | - | - |
| Total limited partnerships | <u>247,990</u> | <u>247,990</u> | - | - |
| Convertible corporate notes | 4,374,875 | - | 4,374,875 | - |
| Corporate notes and bonds | 7,916,913 | - | 7,916,913 | - |
| U.S. government securities | 9,627,924 | - | 9,627,924 | - |
| Money market mutual funds | 3,559,087 | 3,559,087 | - | - |
| Accrued income and other | 30,796 | - | 30,796 | - |
| Total investments | <u>\$ 42,335,598</u> | <u>\$ 18,402,545</u> | <u>\$ 23,933,053</u> | <u>\$ -</u> |
| Certificates of deposit | <u>\$ 400,000</u> | <u>\$ -</u> | <u>\$ 400,000</u> | <u>\$ -</u> |
| Assets held in trust by others | <u>\$ 2,323,228</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 2,323,228</u> |

Investments in convertible corporate notes, and corporate notes and bonds are diversified among various industry groups, substantially all of which are U.S. based issuers.

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Notes to Financial Statements
December 31, 2023 and 2022

4. Property and Equipment

Property and equipment at December 31, 2023 and 2022 consisted of the following:

| | 2023 | 2022 |
|-------------------------------|---------------------|---------------------|
| Kapolei real property | \$ 2,644,928 | \$ 2,644,928 |
| Queen Emma roadway | 124,221 | 124,221 |
| Cluett apartments and land | 34,429 | 96,963 |
| Other | 12,369 | 33,369 |
| subtotal | <u>2,815,947</u> | <u>2,899,481</u> |
| Less accumulated depreciation | - | (83,534) |
| | <u>\$ 2,815,947</u> | <u>\$ 2,815,947</u> |

In June 2010, the Church acquired land in Kapolei, Hawai'i for the purpose of building a new parish property. If a parish property is developed and placed into service, it is expected that the cost of this land will be transferred to the accounts of the new parish.

5. Notes Payable and Loans Receivable

Notes payable at December 31, 2023 and 2022 consisted of:

| | 2023 | 2022 |
|---|-------------------|------------------|
| Christ Memorial Church – \$400,000 note with interest only payments at 4.73%, maturing April 2028. Cash and investments pledged as collateral (maximum of 100% loan to collateral value). | \$ 400,000 | \$ - |
| Trinity Church by-the-Sea – \$100,000 note, payable in \$1,390 monthly installments including interest at 4.50%, maturing June 2026. Repaid in 2024. | 39,528 | 54,043 |
| | <u>\$ 439,528</u> | <u>\$ 54,043</u> |

The Church has an undrawn line of credit in the amount of \$500,000 maturing in December 2024. The line is not collateralized.

Annual future maturities of notes payable are as follows:

| Years ending | |
|---------------------|-------------------|
| 2024 | \$ 15,212 |
| 2025 | 15,912 |
| 2026 | 8,404 |
| 2027 | - |
| 2028 | 400,000 |
| | <u>\$ 439,528</u> |

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The Church's various loan and line of credit agreements contain restrictive covenants, including restrictions on making loans/investments to other parties, and on the incurrence of additional debt obligations.

The notes listed above were obtained by the Church for the purpose of loaning the proceeds to the indicated parish or mission, for their use in capital improvements. Loans receivable from parishes, missions and others on the statement of financial position are as follows:

| | 2023 | 2022 |
|--|-------------------|-------------------|
| Christ Memorial Church | \$ 400,000 | \$ - |
| Trinity Church by-the-Sea | 39,528 | 54,043 |
| Camp Mokule'ia | 190,000 | 150,000 |
| Less allowance for doubtful loans - Camp Mokule'ia | <u>(150,000)</u> | <u>-</u> |
| | <u>\$ 479,528</u> | <u>\$ 204,043</u> |

The loan to Camp Mokule'ia is noninterest bearing with no fixed maturity date.

In developing an allowance for credit losses, management considers various credit quality indicators, primarily the debtor's cash flow and ability to service the loan. An allowance for credit losses of \$150,000 has been provided for part of the Camp Mokule'ia loan at December 31, 2023. Loans from parishes, camps and missions that become uncollectible may be forgiven by the Church through its grant making program.

6. Insurance Proceeds

The devastating Maui wildfires of August 8, 2023 destroyed the parish of Holy Innocents Episcopal Church. Through December 31, 2023, the Diocese has received insurance proceeds totaling \$2,207,626. Management and the Diocesan Council are evaluating various options for the future of this church and its community.

7. Pension Benefits

The Church participates in several multiemployer retirement plans which cover substantially all full-time clergy and lay employees of the Diocese. Contributions are determined as a percentage of each covered employee's salary. Plan types are either defined benefit ("DB") or defined contribution ("DC") plans. Pension expense for fiscal 2023 and 2022 amounted to the following:

| Plan Name | Plan Type | 2023 | 2022 |
|--|------------------|------------------|------------------|
| The Church Pension Fund Clergy Pension Plan | DB | \$ 56,724 | \$ 53,513 |
| The Episcopal Church Lay Employees' Defined Contribution Retirement Plan | DC | <u>34,701</u> | <u>30,008</u> |
| | | <u>\$ 91,425</u> | <u>\$ 83,521</u> |

The Episcopal Church in Hawai'i
Notes to Financial Statements
December 31, 2023 and 2022

8. Other Postretirement Benefits

The Church provides a postretirement supplemental dental benefit for retired clergy and certain lay personnel; and supplemental Medicare benefits for certain lay personnel. The Plan is contributory, with retiree contributions providing for 60% of the insurance cost.

The Church uses a December 31 measurement date for the Plan. The funded status of the Plan as of December 31, 2023 and 2022 was:

| | 2023 | 2022 |
|---|---------------------|---------------------|
| Accumulated postretirement benefit obligation | \$ (322,403) | \$ (347,796) |
| Fair value of plan assets | <u>-</u> | <u>-</u> |
| Funded status | <u>\$ (322,403)</u> | <u>\$ (347,796)</u> |

As of December 31, 2023 and 2022, the accrued postretirement benefit liability recognized in the statements of position was \$322,403 and \$347,796, respectively. Assumptions used to determine the accumulated postretirement benefit obligation at December 31, 2023 and 2022 included:

| | 2023 | 2022 |
|--|-------------------------|-------------|
| Discount rate | 5.00% | 5.23% |
| Health care cost trend rate over the next year | 4.00% | 4.00% |
| Ultimate health care cost trend rate | 4.00% | 4.00% |
| Retirement and withdrawal rates | Specific identification | |

Mortality assumptions were based on PRI 2012 Full Data tables, projected generationally.

Cash activity for the years ended December 31, 2023 and 2022 was as follows:

| | 2023 | 2022 |
|---------------------------|-------------|-------------|
| Employer contributions | \$ 15,463 | \$ 16,039 |
| Participant contributions | - | - |
| Benefits paid | 15,463 | 16,039 |

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Within the statements of functional expenses, the cash portion of net periodic benefit cost is included with employee benefits expense and the non-cash portion is presently separately. Amounts recognized in the statements of activities for the years ended December 31, 2023 and 2022 were as follows:

| | 2023 | 2022 |
|--|-------------------|-------------------|
| Amounts recognized in the statements of activities: | | |
| Net loss (gain) arising during the period | \$ (28,980) | \$ (47,144) |
| Loss (gain) from plan amendment | - | 204,348 |
| Amortization of prior service credit and net gains | 45,367 | 62,449 |
| Total benefit changes other than net periodic benefit cost | <u>16,387</u> | <u>219,653</u> |
| Net periodic benefit cost | | |
| Service cost | 1,451 | 2,659 |
| Other | <u>(27,768)</u> | <u>(56,942)</u> |
| Total net periodic benefit cost | <u>(26,317)</u> | <u>(54,283)</u> |
| | <u>\$ (9,930)</u> | <u>\$ 165,370</u> |
| Discount rate for interest cost component of benefit cost | 5.23% | 2.84% |

In 2021, the Plan was amended to eliminate the medical benefits previously provided under the plan, and replaced that coverage with similar dental benefits. This amendment was modified in 2022 to reflect continuing medical benefits for certain non-clergy retirees. Additionally, the Plan experienced actuarial gains primarily because of favorable demographic experience in 2023 and a change in the discount rate in 2022.

Amounts reflected in unrestricted net assets that have not yet been recognized as a component of net periodic benefit cost are as follows:

| | 2023 | 2022 |
|---|---------------------|---------------------|
| Unamortized actuarial losses (gains) | \$ (22,944) | \$ 15,279 |
| Unamortized prior service cost (credit) | <u>(187,267)</u> | <u>(232,634)</u> |
| | <u>\$ (210,211)</u> | <u>\$ (217,355)</u> |

The Church expects to contribute \$19,384 to the plan in 2024.

The Episcopal Church in Hawai'i
Notes to Financial Statements
December 31, 2023 and 2022

The following summarizes the benefits expected to be paid in future years based on the current enrollment, assumed future participation, and the same assumptions used to measure the accumulated postretirement benefit obligation:

| Years ending December 31, | To Be Paid |
|----------------------------------|-------------------|
| 2024 | \$ 19,384 |
| 2025 | 20,307 |
| 2026 | 21,251 |
| 2027 | 22,214 |
| 2028 | 22,198 |
| 2029 - 2033 | 113,168 |

The Episcopal Church in Hawai'i
Notes to Financial Statements
December 31, 2023 and 2022

9. Net Assets

The Church's endowment consists of numerous individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the governing board to function as endowments. Donor-restricted endowment funds are perpetual in nature and include both the original donor gift and any unspent earnings thereon. Endowment net assets, reflecting the purposes of the funds, as well as non-endowment net assets consisted of the following at December 31, 2023:

| | Without Donor Restrictions | With Donor Restrictions | Total |
|------------------------------------|---|--|---------------|
| Donor Restricted Endowments | | | |
| Episcopate | \$ - | \$ 4,262,547 | \$ 4,262,547 |
| Clergy continuing education | - | 774,268 | 774,268 |
| Scholarships | - | 725,851 | 725,851 |
| Loan fund | - | 1,270,380 | 1,270,380 |
| Support for missions | - | 1,108,708 | 1,108,708 |
| Other programs | - | 777,020 | 777,020 |
| Discretionary | - | 3,898,509 | 3,898,509 |
| | <hr/> | <hr/> | <hr/> |
| | - | 12,817,283 | 12,817,283 |
| Other Endowments | | | |
| Board designated for endowment | | | |
| With donor restrictions | | | |
| Building | - | 2,083,026 | 2,083,026 |
| Other programs | - | 559,611 | 559,611 |
| Without donor restrictions | | | |
| With purpose designations | 2,819,546 | - | 2,819,546 |
| Without purpose designations | 4,649,556 | - | 4,649,556 |
| | <hr/> | <hr/> | <hr/> |
| Subtotal endowment funds | 7,469,102 | 15,459,920 | 22,929,022 |
| Non-Endowments | | | |
| Operating fund | 2,715,528 | 621,161 | 3,336,689 |
| Split interest agreements | 6,945 | 35,248 | 42,193 |
| Perpetual trusts | - | 2,489,071 | 2,489,071 |
| Property and equipment | 2,815,947 | - | 2,815,947 |
| Other | 198,999 | - | 198,999 |
| | <hr/> | <hr/> | <hr/> |
| | 5,737,419 | 3,145,480 | 8,882,899 |
| | <hr/> | <hr/> | <hr/> |
| Total net assets | \$ 13,206,521 | \$ 18,605,400 | \$ 31,811,921 |

Donor restricted endowments of \$12,817,283 include \$6,562,015 of accumulated earnings that are available for expenditure.

The Episcopal Church in Hawai'i
Notes to Financial Statements
December 31, 2023 and 2022

Changes in endowment net assets for the year ending December 31, 2023 were as follows:

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|--|----------------------|
| Endowment Funds, January 1, 2022 | \$ 8,311,870 | \$ 17,114,043 | \$ 25,425,913 |
| Interest and dividends, net of investment expense | 130,124 | 270,241 | 400,365 |
| Net realized/unrealized gains (losses) | (1,231,816) | (2,568,641) | (3,800,457) |
| Contributions and deposits | 100,772 | 104,591 | 205,363 |
| Amounts appropriated for expenditure | (289,623) | (462,529) | (752,152) |
| Other | (34,247) | (31,687) | (65,934) |
| Endowment Funds, December 31, 2022 | <u>\$ 6,987,080</u> | <u>\$ 14,426,018</u> | <u>\$ 21,413,098</u> |

Endowment and non-endowment net assets consisted of the following at December 31, 2022:

| | Without Donor Restrictions | With Donor Restrictions | Total |
|------------------------------------|---|--|----------------------|
| Donor Restricted Endowments | | | |
| Episcopate | \$ - | \$ 4,053,303 | \$ 4,053,303 |
| Clergy continuing education | - | 730,463 | 730,463 |
| Scholarships | - | 682,104 | 682,104 |
| Loan fund | - | 1,152,756 | 1,152,756 |
| Support for missions | - | 1,053,088 | 1,053,088 |
| Other programs | - | 684,035 | 684,035 |
| Discretionary | - | 3,707,385 | 3,707,385 |
| | - | <u>12,063,134</u> | <u>12,063,134</u> |
| Other Endowments | | | |
| Board designated for endowment | | | |
| With donor restrictions | | | |
| Building | - | 1,839,720 | 1,839,720 |
| Other programs | - | 523,164 | 523,164 |
| Without donor restrictions | | | |
| With purpose designations | 2,494,449 | - | 2,494,449 |
| Without purpose designations | 4,492,631 | - | 4,492,631 |
| Subtotal endowment funds | <u>6,987,080</u> | <u>14,426,018</u> | <u>21,413,098</u> |
| Non-Endowments | | | |
| Operating fund | 1,001,359 | 131,706 | 1,133,065 |
| Split interest agreements | 6,945 | 35,248 | 42,193 |
| Perpetual trusts | - | 2,274,105 | 2,274,105 |
| Property and equipment | 2,815,947 | - | 2,815,947 |
| | <u>3,824,251</u> | <u>2,441,059</u> | <u>6,265,310</u> |
| Total net assets | <u>\$ 10,811,331</u> | <u>\$ 16,867,077</u> | <u>\$ 27,678,408</u> |

The Episcopal Church in Hawai'i
Notes to Financial Statements
December 31, 2023 and 2022

Donor restricted endowments of \$12,063,134 include \$5,871,832 of accumulated earnings that are available for expenditure.

Changes in endowment net assets for the year ended December 31, 2022 were as follows:

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|--|----------------------|
| Endowment Funds, January 1, 2022 | \$ 8,311,870 | \$ 17,114,043 | \$ 25,425,913 |
| Interest and dividends, net of investment expense | 130,124 | 270,241 | 400,365 |
| Net realized/unrealized gains (losses) | (1,231,816) | (2,568,641) | (3,800,457) |
| Contributions and deposits | 100,772 | 104,591 | 205,363 |
| Amounts appropriated for expenditure | (289,623) | (462,529) | (752,152) |
| Other | (34,247) | (31,687) | (65,934) |
| Endowment Funds, December 31, 2022 | <u>\$ 6,987,080</u> | <u>\$ 14,426,018</u> | <u>\$ 21,413,098</u> |

Interpretation of SUPMIFA

The governing board (Council) of the Church, in consultation with legal counsel, has interpreted the State's Uniform Prudent Management of Institutional Funds Act (SUPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Church classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time restricted until the Board appropriates such amounts for expenditure. Certain of those net assets are also subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restrictions.

SUPMIFA does not require the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary. As a result, the Church considers a fund to be underwater if the fair value of the fund is less than the original value of initial and subsequent gift amounts donated to the fund. The Church has interpreted SUPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law. The Church's policy permits spending from underwater endowment funds, if any, depending on the degree to which the fund is underwater, unless otherwise precluded by donor intent or relevant laws and regulations. At December 31, 2022 there was one endowment fund, created in 2022, that was underwater by \$1,074. There were no underwater funds at December 31, 2023.

10. Litigation

The Church is party to lawsuits brought against it for actions alleged to have occurred at Church related organizations. Management is currently working with legal counsel to resolve these matters. Certain claims may be covered by insurance. An estimate of ultimate loss, if any, from the resolution of these matters cannot be made at this time.