

The Episcopal Church in Hawai'i

Financial Statements

December 31, 2020 and 2019

The Episcopal Church in Hawai'i
Index

	Page(s)
Independent Auditor's Report	1-2
Financial Statements	
Statement of Financial Position December 31, 2020	3
Statement of Financial Position December 31, 2019	4
Statement of Activities Year Ended December 31, 2020	5
Statement of Activities Year Ended December 31, 2019	6
Statement of Functional Expenses Year Ended December 31, 2020	7
Statement of Functional Expenses Year Ended December 31, 2019	8
Statements of Cash Flows Years Ended December 31, 2020 and 2019	9
Notes to Financial Statements.....	10-27

Independent Auditor's Report

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

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, 2020 and 2019, and the related statements of activities, functional expenses and cash flows 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

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

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

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

Basis for Qualified Opinion

As 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 as required by generally accepted accounting principles. The effects of the above matter on the accompanying financial statements have not been determined.

Qualified Opinion

In my opinion, except for the effects of the matter described in the *Basis for Qualified Opinion* paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Church as of December 31, 2020 and 2019, 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.

James P. Hesselman, CPA, LLC

Honolulu, Hawai'i
September 15, 2021

The Episcopal Church in Hawai'i
Statement of Financial Position
December 31, 2020

	Current Operations	Long-Term Investment	Plant	Total
Assets				
Cash and cash equivalents	\$ 1,030,925	\$ -	\$ -	\$ 1,030,925
Certificates of deposit	100,000	-	-	100,000
Accounts receivable from parishes, missions and other	356,583	-	-	356,583
Prepaid expenses and other assets	38,159	-	-	38,159
Loans receivable from parishes, missions and other	94,956	-	-	94,956
Investments	-	46,157,553	-	46,157,553
Property and equipment	-	-	2,815,947	2,815,947
Assets held in trust by others	-	2,581,082	-	2,581,082
Total assets	<u>\$ 1,620,623</u>	<u>\$ 48,738,635</u>	<u>\$ 2,815,947</u>	<u>\$ 53,175,205</u>
Liabilities and Net Assets				
Accounts payable and other accrued expenses	\$ 44,569	\$ -	\$ -	\$ 44,569
Accrued vacation and sabbatical leave	26,647	-	-	26,647
PPP loan	165,500	-	-	165,500
Due to parishes and other organizations	100,711	22,623,325	-	22,724,036
Security deposits	17,900	-	-	17,900
Annuity obligation	-	6,930	-	6,930
Notes payable	94,956	-	-	94,956
Accrued postretirement benefit cost	680,321	-	-	680,321
Total liabilities	<u>1,130,604</u>	<u>22,630,255</u>	<u>-</u>	<u>23,760,859</u>
Net Assets				
Without donor restrictions	347,868	7,373,029	2,815,947	10,536,844
With donor restrictions	142,151	18,735,351	-	18,877,502
Total net assets	<u>490,019</u>	<u>26,108,380</u>	<u>2,815,947</u>	<u>29,414,346</u>
Total liabilities and net assets	<u>\$ 1,620,623</u>	<u>\$ 48,738,635</u>	<u>\$ 2,815,947</u>	<u>\$ 53,175,205</u>

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

The Episcopal Church in Hawai'i
Statement of Financial Position
December 31, 2019

	Current Operations	Long-Term Investment	Plant	Total
Assets				
Cash and cash equivalents	\$ 538,908	\$ 4,000	\$ -	\$ 542,908
Certificates of deposit	400,000	-	-	400,000
Accounts receivable from parishes, missions and other, net of allowance for credit losses	359,948	-	-	359,948
Prepaid expenses and other assets	32,518	-	-	32,518
Loans receivable from parishes, missions and other	118,009	-	-	118,009
Investments	-	41,268,726	-	41,268,726
Property and equipment	-	-	2,899,481	2,899,481
Assets held in trust by others	-	2,472,391	-	2,472,391
Total assets	<u>\$ 1,449,383</u>	<u>\$ 43,745,117</u>	<u>\$ 2,899,481</u>	<u>\$ 48,093,981</u>
Liabilities and Net Assets				
Accounts payable and other accrued expenses	\$ 38,837	\$ -	\$ -	\$ 38,837
Accrued vacation and sabbatical leave	26,647	-	-	26,647
Due to parishes and other organizations	18,450	20,959,957	-	20,978,407
Security deposits	16,375	-	-	16,375
Annuity obligation	-	6,930	-	6,930
Notes payable	118,009	-	-	118,009
Accrued postretirement benefit cost	633,528	-	-	633,528
Total liabilities	<u>851,846</u>	<u>20,966,887</u>	<u>-</u>	<u>21,818,733</u>
Net Assets				
Without donor restrictions	443,662	5,887,990	2,899,481	9,231,133
With donor restrictions	153,875	16,890,240	-	17,044,115
Total net assets	<u>597,537</u>	<u>22,778,230</u>	<u>2,899,481</u>	<u>26,275,248</u>
Total liabilities and net assets	<u>\$ 1,449,383</u>	<u>\$ 43,745,117</u>	<u>\$ 2,899,481</u>	<u>\$ 48,093,981</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, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains and other support			
Congregation assessments	\$ 1,478,764	\$ -	\$ 1,478,764
Net realized and unrealized gains on investments	801,336	1,781,870	2,583,206
Contributions	615,226	92,049	707,275
Income on long-term investments	113,169	252,184	365,353
Apartment and parking rentals	196,099	-	196,099
Income from assets held in trust by others	83,328	19,875	103,203
Net change in value of assets held in trust by others	-	108,691	108,691
Interest	4,371	-	4,371
Other	2,710	-	2,710
Net assets released from restrictions			
Satisfaction of program requirements	57,246	(57,246)	-
Endowment spending policy appropriations	364,036	(364,036)	-
Total revenues, gains and other support	<u>3,716,285</u>	<u>1,833,387</u>	<u>5,549,672</u>
Expenses			
Program Expenses - ministry and mission support	1,226,064	-	1,226,064
Supporting Services			
Management and general	801,953	-	801,953
Fundraising	23,001	-	23,001
Payments to national Episcopal Church	299,400	-	299,400
Total expenses	<u>2,350,418</u>	<u>-</u>	<u>2,350,418</u>
Other income (losses)			
Postretirement benefit plan changes other than net periodic benefit cost	<u>(60,156)</u>	<u>-</u>	<u>(60,156)</u>
Change in net assets	1,305,711	1,833,387	3,139,098
Net assets			
Beginning of year	<u>9,231,133</u>	<u>17,044,115</u>	<u>26,275,248</u>
End of year	<u>\$ 10,536,844</u>	<u>\$ 18,877,502</u>	<u>\$ 29,414,346</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, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains and other support			
Congregation assessments	\$ 1,724,956	\$ -	\$ 1,724,956
Net realized and unrealized gains on investments	697,821	1,727,917	2,425,738
Contributions	50,199	138,697	188,896
Income on long-term investments	124,920	308,650	433,570
Apartment and parking rentals	181,722	-	181,722
Income from assets held in trust by others	88,025	21,822	109,847
Net change in value of assets held in trust by others	-	299,679	299,679
Interest	10,008	-	10,008
Other	2,713	-	2,713
Net assets released from restrictions			
Satisfaction of program requirements	60,958	(60,958)	-
Endowment spending policy appropriations	364,323	(364,323)	-
Total revenues, gains and other support	<u>3,305,645</u>	<u>2,071,484</u>	<u>5,377,129</u>
Expenses			
Program Expenses - ministry and mission support	1,523,002	-	1,523,002
Supporting Services			
Management and general	756,066	-	756,066
Fundraising	28,364	-	28,364
Payments to national Episcopal Church	274,422	-	274,422
Total expenses	<u>2,581,854</u>	<u>-</u>	<u>2,581,854</u>
Other income (losses)			
Postretirement benefit plan changes other than net periodic benefit cost	(88,399)	-	(88,399)
Change in net assets	<u>635,392</u>	<u>2,071,484</u>	<u>2,706,876</u>
Net assets			
Beginning of year	<u>8,595,741</u>	<u>14,972,631</u>	<u>23,568,372</u>
End of year	<u>\$ 9,231,133</u>	<u>\$ 17,044,115</u>	<u>\$ 26,275,248</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, 2020

	Program Services	Management and General	Fundraising	Payments to National Episcopal Church	Total
Grants	\$ 467,097	\$ -	\$ -	\$ -	\$ 467,097
Salaries and wages	445,914	304,730	12,751	-	763,395
Employee benefits and payroll taxes	160,904	134,621	6,591	-	302,116
Audit support services	-	32,071	-	-	32,071
Legal services	58,584	15,184	-	-	73,768
Other professional services	12,061	37,138	-	-	49,199
Office expenses	13,015	21,512	1,614	-	36,141
Information technology	16,548	18,811	477	-	35,836
Occupancy	16,691	81,595	556	-	98,842
Rental property repair and maintenance	-	17,504	-	-	17,504
Meetings and programs	18,308	9,265	258	-	27,831
Travel	9,727	8,792	643	-	19,162
Insurance	7,215	28,027	111	-	35,353
Depreciation	-	83,534	-	-	83,534
Episcopal Church quota	-	-	-	299,400	299,400
Other	-	9,169	-	-	9,169
	<u>\$ 1,226,064</u>	<u>\$ 801,953</u>	<u>\$ 23,001</u>	<u>\$ 299,400</u>	<u>\$ 2,350,418</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, 2019

	Program Services	Management and General	Fundraising	Payments to National Episcopal Church	Total
Grants	\$ 647,363	\$ -	\$ -	\$ -	\$ 647,363
Salaries and wages	322,321	299,594	12,513	-	634,428
Employee benefits and payroll taxes	137,475	145,863	6,517	-	289,855
Audit support services	72,694	32,685	-	-	105,379
Legal services	40,274	350	-	-	40,624
Other professional services	4,956	14,442	-	-	19,398
Office expenses	16,706	25,404	1,592	-	43,702
Information technology	20,078	19,991	531	-	40,600
Occupancy	17,153	82,413	562	-	100,128
Rental property repair and maintenance	-	25,254	-	-	25,254
Meetings and programs	78,993	13,902	2,312	-	95,207
Travel	66,775	61,209	4,248	-	132,232
Insurance	2,958	26,142	89	-	29,189
Bad debt expense	95,256	-	-	-	95,256
Episcopal Church quota	-	-	-	274,422	274,422
Other	-	8,817	-	-	8,817
	<u>\$ 1,523,002</u>	<u>\$ 756,066</u>	<u>\$ 28,364</u>	<u>\$ 274,422</u>	<u>\$ 2,581,854</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, 2020 and 2019

	2020	2019
Cash flows from operating activities		
Change in net assets	\$ 3,139,098	\$ 2,706,876
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Net unrealized and realized losses (gains) on investments	(2,583,206)	(2,425,738)
Change in value of assets held in trust by others	(108,691)	(299,679)
Depreciation expense	83,534	-
Bad debt expense	-	95,256
Loan receivable	-	20,000
Contributions restricted to endowment	(19,770)	(63,936)
Change in receivables	3,365	(80,106)
Change in prepaid expenses and other	(4,116)	18,740
Change in accounts payable and other accrued expenses	5,732	(23,258)
PPP loan	165,500	-
Change in due to parishes and other organizations	82,261	(41,640)
Change in accrued postretirement benefit cost	46,793	73,818
	<u>810,500</u>	<u>(19,667)</u>
Net cash provided by (used in) operating activities		
Cash flows from investing activities		
Proceeds from sale of investments	36,014,064	35,711,333
Purchases of investments	(35,837,109)	(35,395,916)
Received from parishes for investment in investment pool	80,273	917,875
Parish withdrawals and distributions from investment pool	(899,481)	(1,378,255)
Collection of loans receivable	23,053	99,174
Maturities of certificates of deposit	300,000	-
Loans issued to parishes, missions and other	-	(125,000)
	<u>(319,200)</u>	<u>(170,789)</u>
Net cash used in investing activities		
Cash flows from financing activities		
Notes payable borrowings	-	100,000
Payment of notes payable	(23,053)	(74,173)
Contributions to permanent endowment	19,770	63,936
	<u>(3,283)</u>	<u>89,763</u>
Net cash provided by (used in) financing activities		
Net increase (decrease) in cash and cash equivalents	488,017	(100,693)
Cash and cash equivalents		
Beginning of year	<u>542,908</u>	<u>643,601</u>
End of year	<u>\$ 1,030,925</u>	<u>\$ 542,908</u>
Cash paid during the year for		
Interest	\$ 5,002	\$ 4,310

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

The Episcopal Church in Hawai'i

Notes to Financial Statements

December 31, 2020 and 2019

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 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 generally accepted accounting principles.

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. 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.

New Accounting Pronouncements

In 2020, the Church implemented a new Accounting Standards Update (ASU):

- ASU 2018-13, *Fair Value Measurement, Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement.*

The implementation of this new ASU did not have a significant effect on the Church's disclosures.

The Episcopal Church in Hawai'i

Notes to Financial Statements

December 31, 2020 and 2019

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.

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. Accounts receivable are presented net of an allowance for doubtful accounts of \$95,256 at December 31, 2019, representing amounts owed by a single Church. This amount was written off in 2020.

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.

The Episcopal Church in Hawai'i

Notes to Financial Statements

December 31, 2020 and 2019

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% 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 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.

Prior to 2020, depreciation expense was not recorded on long-lived tangible assets as management had determined that this policy did not have a material effect on the financial statements. In 2020, the Church implemented a policy of depreciating long-lived tangible assets and recorded all previously unrecognized depreciation expense. As the amount was not material, the expense was recorded as normal expense, as opposed to a cumulative effect of change in accounting principle or as a prior period adjustment.

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 2020 or 2019.

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.

The Episcopal Church in Hawai'i

Notes to Financial Statements

December 31, 2020 and 2019

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 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.

The Episcopal Church in Hawai'i

Notes to Financial Statements

December 31, 2020 and 2019

Donated Services

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.

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.

Apartment and Parking Rentals

Represents rental income from St. Andrew's Schools for rental of a parking lot, amounting to approximately \$95,000 in 2020 and \$93,000 in 2019. Also includes apartment building rental income from tenants. 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 presents 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 primarily represents costs associated with the Church's planned giving efforts.

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 2019, 2018, and 2017 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, 2020 and 2019 were in excess of available insurance coverage, however management does not believe the

The Episcopal Church in Hawai'i
Notes to Financial Statements
December 31, 2020 and 2019

Church is exposed to any significant credit risk on cash balances. Accounts and loans receivable are with various parishes in Hawai'i.

Other Risks and Uncertainties

Congregation assessments represent a major source of support for the Church. The Covid-19 pandemic has had a negative impact on the operating results of some of the Church's congregations, which in turn will result in reductions in congregation assessments in future years. Additionally, the Church waived portions of its fiscal 2020 congregation assessments in order to further support the congregations. Management does not expect the negative impacts of the pandemic to severely disrupt the Church's future operating results, however future results could be more detrimental than presently envisioned.

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 September 15, 2021, the date the financial statements were available to be issued.

2. Liquidity and Funds Available

The Church is substantially supported 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 general expenditure within one year at December 31, 2020 **and** 2019, comprise the following:

	2020	2019
Cash and cash equivalents	\$ 1,030,925	\$ 538,908
Certificates of deposit	100,000	400,000
Accounts receivable	328,576	331,941
Accrued income	4,950	5,229
Loans receivable	24,242	23,110
Investments		
Diocesan general fund	509,627	445,491
Appropriated for expenditure in coming year	632,800	452,600
Less: operating fund net assets with donor restrictions	(142,151)	(153,875)
	<u>\$ 2,488,969</u>	<u>\$ 2,043,404</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.

The Episcopal Church in Hawai'i

Notes to Financial Statements

December 31, 2020 and 2019

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.

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, 2020 and 2019.

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.

The Episcopal Church in Hawai'i
Notes to Financial Statements
December 31, 2020 and 2019

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

Fair values of assets measured on a recurring basis are as follows as of December 31, 2020:

	Fair Value	Quoted Prices (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments				
Common stock				
Basic materials	\$ 1,495,941	\$ 1,495,941	\$ -	\$ -
Capital goods/industrials	1,559,387	1,559,387	-	-
Consumer goods	3,373,984	3,373,984	-	-
Energy	907,667	907,667	-	-
Financials	3,518,382	3,518,382	-	-
Health care	1,950,398	1,950,398	-	-
Technology/info com	3,375,662	3,375,662	-	-
Other	465,765	465,765	-	-
Total common stock	<u>16,647,186</u>	<u>16,647,186</u>	-	-
Preferred stock				
Capital and consumer goods	828,835	-	828,835	-
Technology	539,321	-	539,321	-
Utilities	459,936	-	459,936	-
Financials	3,237,176	-	3,237,176	-
Other	909,826	-	909,826	-
Total preferred stock	<u>5,975,094</u>	-	<u>5,975,094</u>	-
Master limited partnerships				
Energy	138,947	138,947	-	-
Basic materials	143,591	143,591	-	-
Total limited partnerships	<u>282,538</u>	<u>282,538</u>	-	-
Convertible corporate notes	6,790,582	-	6,790,582	-
Corporate notes and bonds	7,249,643	-	7,249,643	-
U.S. government securities	6,838,163	-	6,838,163	-
Money market mutual funds	2,232,484	2,232,484	-	-
Accrued income and other	141,863	-	141,863	-
Total investments	<u>\$ 46,157,553</u>	<u>\$ 19,162,208</u>	<u>\$ 26,995,345</u>	<u>\$ -</u>
Certificates of deposit	<u>\$ 100,000</u>	<u>\$ -</u>	<u>\$ 100,000</u>	<u>\$ -</u>
Assets held in trust by others	<u>\$ 2,581,082</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,581,082</u>

The Episcopal Church in Hawai'i
Notes to Financial Statements
December 31, 2020 and 2019

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

	Fair Value	Quoted Prices (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments				
Common stock				
Basic materials	\$ 1,209,723	\$ 605,625	\$ -	\$ -
Capital goods/industrials	1,478,352	901,682	-	-
Consumer goods	2,618,390	1,578,113	-	-
Energy	1,676,462	1,486,322	-	-
Financials	3,129,298	2,584,394	-	-
Health care	1,563,644	1,485,757	-	-
Technology/info com	2,787,940	2,873,018	-	-
Other	520,278	833,553	-	-
Total common stock	<u>14,984,087</u>	<u>14,984,087</u>	<u>-</u>	<u>-</u>
Preferred stock				
Capital and consumer goods	837,216	-	837,216	-
Technology	414,314	-	414,314	-
Utilities	428,290	-	428,290	-
Financials	3,389,735	-	3,389,735	-
Other	515,646	-	515,646	-
Total preferred stock	<u>5,585,201</u>	<u>-</u>	<u>5,585,201</u>	<u>-</u>
Master limited partnerships				
Energy	161,255	161,255	-	-
Utilities	127,476	127,476	-	-
Total limited partnerships	<u>288,731</u>	<u>288,731</u>	<u>-</u>	<u>-</u>
Convertible corporate notes	4,763,240	-	4,763,240	-
Corporate notes and bonds	5,281,865	-	5,281,865	-
U.S. government securities	7,637,607	-	7,637,607	-
Money market mutual funds	2,582,711	2,582,711	-	-
Accrued income and other	145,284	-	145,284	-
Total investments	<u>\$ 41,268,726</u>	<u>\$ 17,855,529</u>	<u>\$ 23,413,197</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>\$ 2,472,391</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,472,391</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.

The Episcopal Church in Hawai'i
Notes to Financial Statements
December 31, 2020 and 2019

4. Property and Equipment

Property and equipment at December 31, 2020 **and 2019** consisted of the following:

	2020	2019
Cluett apartments	\$ 96,963	\$ 96,963
Queen Emma roadway	124,221	124,221
Kapolei real property	2,644,928	2,644,928
Other	33,369	33,369
subtotal	<u>2,899,481</u>	<u>2,899,481</u>
Less accumulated depreciation	<u>(83,534)</u>	<u>-</u>
	<u>\$ 2,815,947</u>	<u>\$ 2,899,481</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.

As discussed in Note 1, the Church recorded previously unrecognized depreciation expense in the 2020 financial statements.

5. PPP Loan

In 2020, the Church received a \$165,500 loan under The Paycheck Protection Program (PPP), which was established as part of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). The program provides for loans to qualifying organizations for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying organization. The loan and accrued interest is forgivable as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during the payroll measurement period. The unforgiven portion of the PPP loan is payable over two years at an interest rate of 1 percent, with a deferral of payments for the first six months.

The Church is accounting for this loan as a conditional grant which will be recognized into income once the conditions to entitlement have been met, namely the incurrence of qualifying costs, the submission of a loan forgiveness application, and the approval of loan forgiveness by the lender.

In July 2021 this loan was forgiven.

In February 2021 Church received a second PPP loan in the amount of \$168,082. The Church expects this second loan to be forgiven later in 2021.

The Episcopal Church in Hawai'i
Notes to Financial Statements
December 31, 2020 and 2019

6. Notes Payable and Loans Receivable

Notes payable at December 31, 2020 and 2019 consisted of:

	2020	2019
Trinity Church by-the-Sea – \$100,000 note, payable in \$1,390 monthly installments including interest at 4.50%, maturing June 2026.	\$ 81,163	\$ 93,813
Christ Church – \$50,046 note, payable in \$948 monthly installments including interest at 4.92%, maturing May 2022.	13,793	24,196
	<u>\$ 94,956</u>	<u>\$ 118,009</u>

The Church has an undrawn line of credit in the amount of \$500,000 that matured in July 2021. The line is not collateralized. Any drawings would incur interest at 3.25%. Management is working with the lender to renew the line for another one year period.

Annual future maturities of notes payable is as follows:

Years ending	
2021	\$ 24,242
2022	16,761
2023	14,550
2024	15,218
2025	15,917
Thereafter	8,268
	<u>\$ 94,956</u>

The Trinity Church by-the-Sea loan agreement contains 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:

	2020	2019
Trinity Church by-the-Sea	\$ 81,163	\$ 93,813
Christ Church	13,793	24,196
	<u>\$ 94,956</u>	<u>\$ 118,009</u>

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. There was no allowance for credit losses at December 31, 2020 and 2019.

The Episcopal Church in Hawai'i
Notes to Financial Statements
December 31, 2020 and 2019

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. Pension expense for fiscal 2020 and 2019 amounted to the following:

Plan Name	Plan Type	2020	2019
The Church Pension Fund Clergy Pension Plan	DB	\$ 53,456	\$ 52,437
The Episcopal Church Lay Employees' Retirement Plan	DB	14,550	14,313
The Episcopal Church Lay Employees' Defined Contribution Retirement Plan	DC	41,749	39,158
		<u>\$ 109,755</u>	<u>\$ 105,908</u>

Plan types are either defined benefit ("DB") or defined contribution ("DC") plans.

8. Other Postretirement Benefits

The Church provides a postretirement supplemental Medicare health plan benefit for retired clergy and certain lay personnel. The plan purchases supplemental Medicare insurance from third-party providers. The plan is contributory, with retiree contributions providing for 60% of the insurance cost. The plan is unfunded.

The Church uses a December 31 measurement date for the plan. The funded status of the plan as of December 31, 2020 **and** 2019 was:

	2020	2019
Accumulated postretirement benefit obligation	\$ (680,321)	\$ (633,528)
Fair value of plan assets	-	-
Funded status	<u>\$ (680,321)</u>	<u>\$ (633,528)</u>

As of December 31, 2020 **and** 2019, the accrued postretirement benefit liability recognized in the statements of position was \$680,321 and \$633,528, respectively. Assumptions used to determine the accumulated postretirement benefit obligation at December 31, 2020 **and** 2019 included:

	2020	2019
Discount rate	2.34%	2.98%
Health care cost trend rate over the next year	5.50%	5.50%
Ultimate health care cost trend rate	5.50%	5.50%
Retirement and withdrawal rates	Specific identification	

The Episcopal Church in Hawai'i
Notes to Financial Statements
December 31, 2020 and 2019

Mortality assumptions were based on the Retired Pensioners Mortality Tables (RP-2014) in 2019 and 2020, projected generationally.

Cash activity for the years ended December 31, 2020 **and** 2019 was as follows:

	2020	2019
Employer contributions	\$ 19,368	\$ 21,506
Participant contributions	23,672	26,285
Benefits paid	43,040	47,791

Amounts recognized in the statements of activities for the years ended December 31, 2020 **and** 2019 were as follows:

	2020	2019
Amounts recognized in the statements of activities:		
Net loss (gain) arising during the period	\$ 41,873	\$ 68,728
Amortization of prior service credit and net gains	18,283	19,671
Total benefit changes other than net periodic benefit cost	60,156	88,399
Net periodic benefit cost		
Service cost	5,842	4,521
Other	163	2,404
Total net periodic benefit cost	6,005	6,925
	<u>\$ 66,161</u>	<u>\$ 95,324</u>
Discount rate for interest cost component of benefit cost	2.98%	4.05%

Net periodic benefit cost is included with employee benefits expense in the statements of functional expenses.

The net loss arising in 2020 and 2019 was primarily due to the annual change in the discount rate.

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

	2020	2019
Unamortized actuarial losses	\$ 113,557	\$ 73,072
Unamortized prior service cost (credit)	(78,685)	(98,356)
	<u>\$ 34,872</u>	<u>\$ (25,284)</u>

These unamortized items will continue to be amortized as a component of net periodic benefit cost in future years, with an offsetting reclassification adjustment to change in net assets. Fiscal 2021

The Episcopal Church in Hawai'i
Notes to Financial Statements
December 31, 2020 and 2019

amortization expense of unamortized actuarial losses is expected to be \$6,504. Fiscal 2021 amortization income of unamortized prior service cost (credit) is expected to be \$19,671.

The Church expects to contribute \$29,110 to the plan in 2021.

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,	Benefits estimated to be paid
2021	\$ 29,110
2022	28,782
2023	28,379
2024	29,156
2025	33,171
2026 - 2030	179,915

The Episcopal Church in Hawai'i
Notes to Financial Statements
December 31, 2020 and 2019

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, 2020:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor Restricted Endowments			
Episcopate	\$ -	\$ 4,733,180	\$ 4,733,180
Clergy continuing education	-	788,387	788,387
Scholarships	-	748,765	748,765
Loan fund	-	1,226,909	1,226,909
Support for missions	-	1,217,603	1,217,603
Other programs	-	721,869	721,869
Discretionary	-	4,330,321	4,330,321
	<u>-</u>	<u>13,767,034</u>	<u>13,767,034</u>
Other Endowments			
Board designated for endowment			
With donor restrictions			
Building	-	1,854,494	1,854,494
Other programs	-	546,616	546,616
Without donor restrictions			
With purpose designations	2,319,262	-	2,319,262
Without purpose designations	5,046,822	-	5,046,822
Subtotal endowment funds	<u>7,366,084</u>	<u>16,168,144</u>	<u>23,534,228</u>
Non-Endowments			
Operating fund	347,868	142,151	490,019
Split interest agreements	6,945	35,248	42,193
Perpetual trusts	-	2,531,959	2,531,959
Property and equipment	2,815,947	-	2,815,947
	<u>3,170,760</u>	<u>2,709,358</u>	<u>5,880,118</u>
Total net assets	<u>\$ 10,536,844</u>	<u>\$ 18,877,502</u>	<u>\$ 29,414,346</u>

Donor restricted endowments of \$13,767,034 include \$7,634,666 of accumulated earnings that are available for expenditure.

The Episcopal Church in Hawai'i
Notes to Financial Statements
December 31, 2020 and 2019

Changes in endowment net assets for the year ending December 31, 2020 were as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Funds, January 1, 2020	\$ 5,881,045	\$ 14,431,724	\$ 20,312,769
Interest and dividends, net of investment expense	113,169.00	252,184.00	365,353
Net realized/unrealized gains (losses)	801,336	1,781,870	2,583,206
Contributions and deposits	733,267	87,603	820,870
Amounts appropriated for expenditure	(126,544)	(364,036)	(490,580)
Transfers to operating funds	(36,189)	(21,201)	(57,390)
Endowment Funds, December 31, 2020	<u>\$ 7,366,084</u>	<u>\$ 16,168,144</u>	<u>\$ 23,534,228</u>

The Episcopal Church in Hawai'i
Notes to Financial Statements
December 31, 2020 and 2019

Endowment and non-endowment net assets consisted of the following at December 31, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor Restricted Endowments			
Episcopate	\$ -	\$ 4,299,310	\$ 4,299,310
Clergy continuing education	-	689,141	689,141
Scholarships	-	671,975	671,975
Loan fund	-	1,072,503	1,072,503
Support for missions	-	1,090,969	1,090,969
Other programs	-	643,289	643,289
Discretionary	-	3,933,616	3,933,616
	<u>-</u>	<u>12,400,803</u>	<u>12,400,803</u>
Other Endowments			
Board designated for endowment			
With donor restrictions			
Building	-	1,568,084	1,568,084
Other programs	-	462,837	462,837
Without donor restrictions			
With purpose designations	2,089,126	-	2,089,126
Without purpose designations	3,791,919	-	3,791,919
Subtotal endowment funds	<u>5,881,045</u>	<u>14,431,724</u>	<u>20,312,769</u>
Non-Endowments			
Operating fund	443,662	153,875	597,537
Split interest agreements	6,945	35,248	42,193
Perpetual trusts	-	2,423,268	2,423,268
Property and equipment	2,899,481	-	2,899,481
	<u>3,350,088</u>	<u>2,612,391</u>	<u>5,962,479</u>
Total net assets	<u>\$ 9,231,133</u>	<u>\$ 17,044,115</u>	<u>\$ 26,275,248</u>

Donor restricted endowments of \$12,400,803 include \$6,288,205 of accumulated earnings that are available for expenditure.

The Episcopal Church in Hawai'i
Notes to Financial Statements
December 31, 2020 and 2019

Changes in endowment net assets for the year ended December 31, 2019 were as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Funds, January 1, 2019	\$ 5,078,973	\$ 12,659,095	\$ 17,738,068
Interest and dividends, net of investment expense	124,920	308,650	433,570
Net realized/unrealized gains (losses)	697,821	1,727,917	2,425,738
Contributions and deposits	56,519	126,772.97	183,292
Amounts appropriated for expenditure	(74,188)	(364,323)	(438,511)
Transfers to operating funds	(3,000)	(26,388)	(29,388)
Endowment Funds, December 31, 2019	<u>\$ 5,881,045</u>	<u>\$ 14,431,724</u>	<u>\$ 20,312,769</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. There were no underwater funds at December 31, 2020 and 2019.

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. An estimate of ultimate loss, if any, from the resolution of these matters cannot be made at this time.