

HAWAII ISLAND HUMANE SOCIETY
(A Hawaii Nonprofit Corporation)

AUDITED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

HAWAII ISLAND HUMANE SOCIETY

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INDEPENDENT AUDITOR'S REPORT

To the Management and Board of Directors of
Hawaii Island Humane Society
Kailua Kona, Hawai'i 96740-2701

We have audited the accompanying financial statements of Hawaii Island Humane Society (a Hawai'i nonprofit Organization) (the Organization) which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities and change in net assets, 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

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hawaii Island Humane Society as of June 30, 2016 and 2015, and the related statements of activities and changes in net assets, functional expense and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

To the Management and Board of Directors of
Hawaii Island Humane Society

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedules of County Program Activities on page 10 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Handwritten signature in cursive script that reads "Carlono CPAs".

Hilo, Hawai'i
September 15, 2016

HAWAII ISLAND HUMANE SOCIETY

Statements of Financial Position
For the Years Ended June 30, 2016 and 2015

| | <u>2016</u> | <u>2015</u> |
|---|----------------------------|----------------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and Cash Equivalents (Note 2) | \$ 1,674,935 | \$ 1,369,495 |
| Other Current Assets | | |
| Accounts Receivable | 39,560 | 1,690 |
| Pledge Receivable, net of Allowance (Note 16) | 387,471 | 605,140 |
| Prepaid Expense | 10,159 | 9,353 |
| Retail Inventory | 11,220 | 14,652 |
| Total Other Current Assets | <u>448,410</u> | <u>630,835</u> |
| Total Current Assets | <u>2,123,345</u> | <u>2,000,330</u> |
| PROPERTY AND EQUIPMENT (Note 2) | | |
| Kea'au Land (Note 13) | 100,000 | 100,000 |
| Holualoa Land (Note 14) | 452,646 | 452,646 |
| Buildings | 871,502 | 871,502 |
| Vehicles | 300,091 | 339,642 |
| Equipment - Office | 58,127 | 112,961 |
| Operating Room Equipment | 49,084 | 49,084 |
| Leasehold Improvements (Note 15) | 107,327 | 107,327 |
| Construction In Progress (Note 14) | 590,890 | 448,575 |
| Miscellaneous Assets | 21,954 | 21,954 |
| | <u>2,551,621</u> | <u>2,503,691</u> |
| Accumulated Depreciation | <u>(760,658)</u> | <u>(805,484)</u> |
| Net Property and Equipment | <u>1,790,963</u> | <u>1,698,207</u> |
| OTHER ASSETS | | |
| Certificate of Deposit (Note 2) | 23,859 | 23,682 |
| Annuity Contracts (Note 2) | 11,336 | 17,524 |
| Deposits - Other | 6,800 | 5,000 |
| Total Other Assets | <u>41,995</u> | <u>46,206</u> |
| TOTAL ASSETS | <u><u>\$ 3,956,303</u></u> | <u><u>\$ 3,744,743</u></u> |

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

HAWAII ISLAND HUMANE SOCIETY

Statements of Financial Position
For the Years Ended June 30, 2016 and 2015

LIABILITIES AND NET ASSETS

| | <u>2016</u> | <u>2015</u> |
|--|---------------------|---------------------|
| CURRENT LIABILITIES | | |
| Accounts Payable | \$ 69,245 | \$ 80,639 |
| S/N Coupon and Other County Payables (Note 11) | 4,164 | 2,120 |
| Credit Cards | 1,579 | 11,549 |
| Total Accounts Payable and Credit Cards | <u>74,988</u> | <u>94,308</u> |
| OTHER CURRENT LIABILITIES | | |
| Accrued Wages | 47,159 | 25,381 |
| Accrued Vacation Payable | 30,198 | 31,071 |
| Accrued Payroll Taxes and Benefits | 5,915 | 8,205 |
| Current Portion of Capitalized Leases | - | 7,222 |
| Total Other Current Liabilities | <u>83,272</u> | <u>71,879</u> |
| TOTAL CURRENT LIABILITIES | 158,260 | 166,187 |
| NET ASSETS (Note 5) | | |
| Unrestricted | 2,061,679 | 2,007,323 |
| Board Designated | 77,156 | 77,156 |
| Unrestricted Net Assets | <u>2,138,835</u> | <u>2,084,479</u> |
| Temporarily Restricted | 1,636,861 | 1,471,730 |
| Permanently Restricted | 22,347 | 22,347 |
| Total Net Assets | <u>3,798,043</u> | <u>3,578,556</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 3,956,303</u> | <u>\$ 3,744,743</u> |

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

HAWAII ISLAND HUMANE SOCIETY
Statement of Activities and Change in Net Assets
For the Year Ended June 30, 2015

| | Unrestricted | Restricted | | 2015 Total |
|---|---------------------|---------------------|------------------|---------------------|
| | | Temporarily | Permanently | |
| PUBLIC SUPPORT AND REVENUE | | | | |
| County of Hawai'i | \$ 1,982,500 | \$ - | \$ - | \$ 1,982,500 |
| Donated Services (Note 7) | - | - | - | - |
| Donations | 313,023 | 1,164,344 | - | 1,477,367 |
| Adoptions | 123,152 | - | - | 123,152 |
| Fundraising | 56,794 | - | - | 56,794 |
| S/N CAP Coupon Sales (Note 10) | 38,962 | - | - | 38,962 |
| Sales | 25,545 | - | - | 25,545 |
| Cost of Goods Sold (Note 2) | (18,589) | - | - | (18,589) |
| Grants | 6,742 | 76,190 | - | 82,932 |
| Donated Rent (Note 7) | 25,200 | - | - | 25,200 |
| Humane Shelter Services | 14,309 | - | - | 14,309 |
| Miscellaneous Revenue | 6,643 | 1,421 | - | 8,064 |
| Recycling | 1,698 | - | - | 1,698 |
| Net Assets Released from Restrictions | 649,315 | (649,315) | - | - |
| Total Public Support and Revenue | 3,225,294 | 592,640 | - | 3,817,934 |
| EXPENSES | | | | |
| Program Expenses | 2,410,535 | - | - | 2,410,535 |
| Management and General | 239,873 | - | - | 239,873 |
| Fundraising Expenses | 141,980 | - | - | 141,980 |
| Total Expenses | 2,792,388 | - | - | 2,792,388 |
| CHANGE IN NET ASSETS | \$ 432,906 | \$ 592,640 | \$ - | \$ 1,025,546 |
| NET ASSETS, BEGINNING OF YEAR | 1,651,573 | 879,090 | 22,347 | 2,553,010 |
| NET ASSETS, END OF YEAR | <u>\$ 2,084,479</u> | <u>\$ 1,471,730</u> | <u>\$ 22,347</u> | <u>\$ 3,578,556</u> |

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

HAWAII ISLAND HUMANE SOCIETY
Statement of Activities and Change in Net Assets
For the Year Ended June 30, 2016

| | Unrestricted | Restricted | | 2016 Total |
|---|---------------------|---------------------|------------------|---------------------|
| | | Temporarily | Permanently | |
| PUBLIC SUPPORT AND REVENUE | | | | |
| County of Hawai'i | \$ 1,982,500 | \$ - | \$ - | \$ 1,982,500 |
| Donated Services (Note 7) | 6,217 | - | - | 6,217 |
| Donations | 153,375 | 500,000 | - | 653,375 |
| Fundraising | 68,977 | - | - | 68,977 |
| Grants | 119,304 | 76,190 | - | 195,494 |
| Adoptions | 124,389 | - | - | 124,389 |
| S/N CAP Coupon Sales (Note 10) | 12,423 | - | - | 12,423 |
| Donated Rent (Note 7) | 25,200 | - | - | 25,200 |
| Sales | 26,895 | - | - | 26,895 |
| Cost of Goods Sold (Note 2) | (30,988) | - | - | (30,988) |
| Miscellaneous Revenue | 17,050 | 1,421 | - | 18,471 |
| Humane Shelter Services | 18,240 | - | - | 18,240 |
| Recycling | 1,269 | - | - | 1,269 |
| Gain on Sale of Asset | 8,165 | - | - | 8,165 |
| Net Assets Released from Restrictions | 412,480 | (412,480) | - | - |
| Total Public Support and Revenue | 2,945,496 | 165,131 | - | 3,110,627 |
| EXPENSES | | | | |
| Program Expenses | 2,497,309 | - | - | 2,497,309 |
| Management and General | 261,560 | - | - | 261,560 |
| Fundraising Expenses | 132,271 | - | - | 132,271 |
| Total Expenses | 2,891,140 | - | - | 2,891,140 |
| CHANGE IN NET ASSETS | \$ 54,356 | \$ 165,131 | \$ - | \$ 219,487 |
| NET ASSETS, BEGINNING OF YEAR | 2,084,479 | 1,471,730 | 22,347 | 3,578,556 |
| NET ASSETS, END OF YEAR | \$ 2,138,835 | \$ 1,636,861 | \$ 22,347 | \$ 3,798,043 |

HAWAII ISLAND HUMANE SOCIETY

Statement of Functional Expenses
For the Year Ended June 30, 2016

| | Program Services | Supporting Services | | 2016 Total |
|---------------------------------------|---------------------|---------------------------|-------------------|---------------------|
| | | Management and General | Fundraising | |
| Salaries and Wages | \$ 1,146,277 | \$ 128,795 | \$ 12,880 | \$ 1,287,952 |
| Kennel Supplies, Food and Medicine | 229,928 | - | - | 229,928 |
| Employee Benefits | 206,436 | 23,195 | 2,320 | 231,950 |
| Surgery Programs and Supplies | 154,300 | 14,334 | - | 168,634 |
| Payroll Taxes | 124,825 | 14,025 | 1,403 | 140,253 |
| Legal and Professional Services | 84,661 | 29,746 | - | 114,407 |
| Fundraising Expense | - | - | 106,916 | 106,916 |
| Utilities | 78,662 | 5,021 | - | 83,683 |
| Auto Expense | 77,535 | - | - | 77,535 |
| Insurance | 62,919 | 4,016 | - | 66,935 |
| Repairs and Maintenance | 39,207 | 21,112 | - | 60,319 |
| Depreciation | 59,325 | - | - | 59,325 |
| Advertising | 34,794 | - | - | 34,794 |
| Animal Disposal | 29,091 | - | - | 29,091 |
| Rent, including In-kind Rent (Note 7) | 27,700 | 1,250 | - | 28,950 |
| Adoption Expense | 28,075 | - | - | 28,075 |
| Office Supplies | 22,094 | 5,523 | - | 27,617 |
| General Excise Tax and Other Taxes | 11,914 | - | 4,186 | 16,100 |
| Network Expense | 8,747 | 5,831 | - | 14,578 |
| Printing | 13,377 | - | 704 | 14,081 |
| Bank and Credit Card Fees | 10,698 | - | 2,675 | 13,373 |
| Veterinary Care and Evidence Animals | 10,565 | - | - | 10,565 |
| Other Expenses | 8,491 | 1,864 | - | 10,355 |
| Postage and Freight | 2,775 | 2,642 | 1,189 | 6,606 |
| Staff Meeting and Training | 4,742 | 1,844 | - | 6,586 |
| In-Kind - Service (Note 7) | 6,217 | - | - | 6,217 |
| Humane Education | 4,183 | - | - | 4,183 |
| Dues, Licenses, Subscriptions | 2,297 | 1,732 | - | 4,029 |
| Meals and Travel | 3,300 | 629 | - | 3,929 |
| Uniforms | 2,528 | - | - | 2,528 |
| Animal Control Equipment | 1,646 | - | - | 1,646 |
| Loss on Disposal | - | - | - | - |
| TOTAL EXPENSES | \$ 2,497,309 | \$ 261,560 | \$ 132,271 | \$ 2,891,140 |

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

HAWAII ISLAND HUMANE SOCIETY

Statement of Functional Expenses
For the Year Ended June 30, 2015

| | Program Services | Supporting Services | | 2015 Total |
|---------------------------------------|---------------------|---------------------------|-------------------|---------------------|
| | | Management and General | Fundraising | |
| Salaries and Wages | \$ 1,124,735 | \$ 126,300 | \$ 12,636 | \$ 1,263,671 |
| Kennel Supplies, Food and Medicine | 251,959 | - | - | 251,959 |
| Employee Benefits | 188,275 | 21,155 | 2,115 | 211,545 |
| Surgery Programs and Supplies | 107,887 | 10,061 | - | 117,948 |
| Payroll Taxes | 122,680 | 13,781 | 1,347 | 137,808 |
| Legal and Professional Services | 63,151 | 21,843 | - | 84,994 |
| Fundraising Expense | - | - | 119,283 | 119,283 |
| Utilities | 85,781 | 5,359 | - | 91,140 |
| Auto Expense | 94,564 | - | - | 94,564 |
| Insurance | 64,060 | 4,417 | - | 68,477 |
| Repairs and Maintenance | 30,964 | 16,665 | - | 47,629 |
| Depreciation | 59,806 | - | - | 59,806 |
| Advertising | 42,921 | - | - | 42,921 |
| Animal Disposal | 29,637 | - | - | 29,637 |
| Rent, including In-kind Rent (Note 7) | 27,700 | 1,250 | - | 28,950 |
| Adoption Expense | 1,675 | - | - | 1,675 |
| Office Supplies | 16,092 | 4,061 | - | 20,153 |
| General Excise Tax and Other Taxes | 9,155 | - | 3,216 | 12,371 |
| Network Expense | 7,163 | 4,772 | - | 11,935 |
| Printing | 8,693 | - | 455 | 9,148 |
| Bank and Credit Card Fees | 8,528 | - | 2,131 | 10,659 |
| Veterinary Care and Evidence Animals | 29,724 | - | - | 29,724 |
| Other Expenses | 3,728 | 831 | - | 4,559 |
| Postage and Freight | 1,909 | 1,804 | 797 | 4,510 |
| Staff Meeting and Training | 12,392 | 4,817 | - | 17,209 |
| In-Kind - Service (Note 7) | - | - | - | - |
| Humane Education | 1,496 | - | - | 1,496 |
| Dues, Licenses, Subscriptions | 2,807 | 2,102 | - | 4,909 |
| Meals and Travel | 3,431 | 655 | - | 4,086 |
| Uniforms | 4,557 | - | - | 4,557 |
| Animal Control Equipment | 1,848 | - | - | 1,848 |
| Loss on Disposal | 3,217 | - | - | 3,217 |
| TOTAL EXPENSES | \$ 2,410,535 | \$ 239,873 | \$ 141,980 | \$ 2,792,388 |

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

HAWAII ISLAND HUMANE SOCIETY

Statements of Cash Flows

For the Years Ended June 30, 2016 and 2015

| | <u>2016</u> | <u>2015</u> |
|--|----------------------------|----------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Hawai'i County Funding | \$ 1,982,500 | \$ 1,982,500 |
| Retail Sales and Services to Public | 358,136 | 264,853 |
| Fundraising | 68,977 | 56,794 |
| S/N CAP Coupon Sales | 14,467 | 36,332 |
| Foundations and Other Donations | 871,044 | 980,853 |
| Other Cash Received | 19,740 | 9,762 |
| Cash Paid to Employees and Vendors | <u>(2,869,825)</u> | <u>(2,780,446)</u> |
| Net Cash Provided by Operating Activities (Note 8) | 445,039 | 550,648 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Cash Used to Purchase Certificates of Deposit | (177) | (177) |
| Proceeds from Asset Sale | 8,165 | - |
| Proceeds from Annuity Contracts | 6,188 | 6,724 |
| Cash Used to Purchase Property and Equipment | (4,238) | (37,924) |
| Cash Used on Construction in Process | <u>(142,315)</u> | <u>(416,575)</u> |
| Net Cash Used by Investing Activities | (132,377) | (447,952) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Principal Payments on Lease Payable | <u>(7,222)</u> | <u>(16,844)</u> |
| Net Cash Used by Financing Activities | <u>(7,222)</u> | <u>(16,844)</u> |
| Net Increase in Cash for the Year | 305,440 | 85,852 |
| CASH BALANCE, BEGINNING OF YEAR | <u>1,369,495</u> | <u>1,283,643</u> |
| CASH BALANCE, END OF YEAR | <u><u>\$ 1,674,935</u></u> | <u><u>\$ 1,369,495</u></u> |
| <hr/> | | |
| Non-Cash Investing and Financing Activities | | |
| Non-Cash Items in Construction in Progress | \$ - | \$ 32,000 |

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

HAWAII ISLAND HUMANE SOCIETY
Supplementary Information
Schedules of County Program Activities
For the Years Ended June 30, 2016 and 2015

| | 2016 | | | 2015 | | |
|---|--------------------|-------------------|--------------------|--------------------|-----------------|--------------------|
| | Animal Control | S/N CAP | Total | Animal Control | S/N CAP | Total |
| Receipts: | | | | | | |
| County of Hawai'i Contracted Funds | \$ 1,860,900 | \$ 121,600 | \$ 1,982,500 | \$ 1,860,900 | \$ 121,600 | \$ 1,982,500 |
| Miscellaneous | 7,665 | - | 7,665 | - | - | - |
| Total Receipts | 1,868,565 | 121,600 | 1,990,165 | 1,860,900 | 121,600 | 1,982,500 |
| Operating Expenses | | | | | | |
| Salaries and Wages | 1,039,339 | - | 1,039,339 | 1,023,031 | - | 1,023,031 |
| Employee Benefits | 196,294 | - | 196,294 | 174,824 | - | 174,824 |
| Kennel Supplies, Food and Medicine | 164,989 | - | 164,989 | 159,882 | - | 159,882 |
| Surgery Programs and Supplies (Note 10) | - | 128,624 | 128,624 | - | 115,356 | 115,356 |
| Payroll Taxes | 112,636 | - | 112,636 | 111,776 | - | 111,776 |
| Auto Expense | 76,723 | - | 76,723 | 126,819 | - | 126,819 |
| Utilities | 66,372 | - | 66,372 | 72,021 | - | 72,021 |
| Insurance | 56,313 | - | 56,313 | 54,093 | - | 54,093 |
| Outside Services/Contract Labor | 46,777 | - | 46,777 | - | - | - |
| Legal and Professional Services | 43,815 | - | 43,815 | 62,129 | - | 62,129 |
| Repairs and Maintenance | 37,173 | - | 37,173 | 29,096 | - | 29,096 |
| Animal Disposal | 29,091 | - | 29,091 | 29,638 | - | 29,638 |
| Office Supplies | 12,454 | - | 12,454 | 11,343 | - | 11,343 |
| Office Equipment and Rentals | 7,839 | - | 7,839 | 9,822 | - | 9,822 |
| Advertising | 7,714 | - | 7,714 | 1,307 | - | 1,307 |
| Network Expense | 6,891 | - | 6,891 | 5,696 | - | 5,696 |
| Miscellaneous | 4,604 | - | 4,604 | (139) | - | (139) |
| Bank and Credit Card Fees | 3,920 | - | 3,920 | 3,108 | - | 3,108 |
| Travel and Mileage | 2,696 | - | 2,696 | 2,279 | - | 2,279 |
| Uniforms | 2,425 | - | 2,425 | 3,974 | - | 3,974 |
| Staff Meeting and Training | 2,352 | - | 2,352 | 9,401 | - | 9,401 |
| Postage and Freight | 1,990 | - | 1,990 | 2,883 | - | 2,883 |
| Dues, Licenses, Subs, Taxes | 1,966 | - | 1,966 | 2,167 | - | 2,167 |
| Animal Control Equipment | 1,646 | - | 1,646 | 1,848 | - | 1,848 |
| Veterinary Care and Evidence Animals | 1,189 | - | 1,189 | 1,644 | - | 1,644 |
| Printing | 652 | - | 652 | - | - | - |
| Total Operating Expenses | 1,927,860 | 128,624 | 2,056,484 | 1,898,642 | 115,356 | 2,013,998 |
| Capital Lease Payments | 7,222 | - | 7,222 | 16,842 | - | 16,842 |
| Fixed Assets Purchased | 4,238 | - | 4,238 | 37,579 | - | 37,579 |
| Excess Receipts Over (Under) Disbursements | \$ (70,755) | \$ (7,024) | \$ (77,779) | \$ (92,163) | \$ 6,244 | \$ (85,919) |

HAWAII ISLAND HUMANE SOCIETY

Notes to the Financial Statements June 30, 2016 and 2015

Note 1. ORGANIZATION

The Hawaii Island Humane Society is a nonprofit Organization (the Organization) incorporated under the laws of the State of Hawai'i on May 10, 1962. The Hawaii Island Humane Society is organized to prevent cruelty to animals, to eliminate pet overpopulation, and to enhance the bond between humans and animals.

The Hawaii Island Humane Society is responsible for carrying out animal control for the County of Hawai'i for the entire island of Hawai'i. They maintain shelters in each of three island locations: Kona, Kea'au, and Waimea.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Method of Accounting: The Organization uses the accrual method of accounting for financial statement reporting according to generally accepted accounting principles in the United States of America. Under this method of accounting, revenue is recognized when earned rather than when received, and expenses are recognized when incurred rather than when paid.

Revenue Recognition: Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Grants and other contributions of cash are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When the donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. The Organization has adopted the policy of recording donor restrictions met in the same year as increases to unrestricted net assets.

Cost of Goods Sold: Cost of goods sold consists of the cost of inventory merchandise purchased for resale that has been sold. The cost of goods sold for fiscal years ending June 30, 2016 and 2015 were \$30,988 and \$18,589 respectively.

Investments: The Organization has implemented *FASB ASC 820-10-50-1* which establishes 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.

HAWAII ISLAND HUMANE SOCIETY

Notes to the Financial Statements June 30, 2016 and 2015

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *continued*

Fair values of assets measured on a recurring basis are as follows, there are no liabilities or other assets measured at fair value on a recurring or non-recurring basis.

| June 30, 2016 | | | | |
|------------------------|------------------|---------------------------|---|---|
| Assets | Total | Quoted Prices: Level 1 | Significant Other Inputs: Level 2 | Significant Non- Observable Inputs: Level 3 |
| Certificate of Deposit | \$ 23,859 | \$ 23,859 | \$ - | \$ - |
| Annuity Contracts* | 11,336 | - | - | 11,336 |
| Total | <u>\$ 35,195</u> | <u>\$ 23,859</u> | <u>\$ -</u> | <u>\$ 11,336</u> |
| June 30, 2015 | | | | |
| Assets | Total | Quoted Prices: Level 1 | Significant Other Inputs: Level 2 | Significant Non- Observable Inputs: Level 3 |
| Certificate of Deposit | \$ 23,682 | \$ 23,682 | \$ - | \$ - |
| Annuity Contracts* | 17,524 | - | - | 17,524 |
| Total | <u>\$ 41,206</u> | <u>\$ 23,682</u> | <u>\$ -</u> | <u>\$ 17,524</u> |

* *Annuity Contracts*: Annuity Contracts are valued at present value of cash receipts.

The following table summarizes the changes in fair values associated with *FASB ASC 820* Level 3 assets:

| | Level 3 2016 | Level 3 2015 |
|------------------------------------|------------------|------------------|
| Balance Beginning of Year | \$ 17,524 | \$ 24,248 |
| Donation of Annuities | - | - |
| Capital Distributions | (6,671) | (6,635) |
| Net Unrealized and Realized Losses | 483 | (89) |
| Balance as of Year End | <u>\$ 11,336</u> | <u>\$ 17,524</u> |

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Inventory: Inventory is stated at cost. Cost is determined using the first-in, first-out (FIFO) method.

HAWAII ISLAND HUMANE SOCIETY

Notes to the Financial Statements
June 30, 2016 and 2015

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *continued*

Property and Equipment: The Organization capitalizes all furniture and equipment with a useful life greater than one year and a cost greater than \$1,000. Property and equipment are stated at cost or if donated, at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over the assets' estimated useful lives.

The Organization has purchased various fixed assets with County grant funds. As a result these assets revert back to the grantor upon discontinuance of their intended purposes. However, management plans to use the assets for their intended purposes for the life of the assets, and the likelihood of the assets having to be returned is remote.

Cash and Cash Equivalents: For the purpose of the statement of cash flows, the Organization considers all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents. Interest income on the certificates of deposit is recorded as income when earned. Cash and equivalents exclude cash restricted for the endowment fund. The following is a summary of deposits as of June 30:

| | <u>2016</u> | <u>2015</u> |
|------------------------|---------------------|---------------------|
| Fully Insured Deposits | \$ 440,067 | \$ 549,833 |
| Uncollateralized | <u>1,234,868</u> | <u>819,662</u> |
| | <u>\$ 1,674,935</u> | <u>\$ 1,369,495</u> |

Note 3. CONCENTRATIONS

The Organization received approximately 64%, and 51% of its revenue from the County of Hawai'i as of June 30, 2016 and 2015, respectively. Continued County funding at present service levels is dependent upon economic conditions on the Island of Hawai'i and budgetary restraints experienced by the County. Reductions in this funding could affect the Organization's ability to continue as a going concern.

Funds received pursuant to the County of Hawai'i purchase of service agreement are for operating the County Animal Shelter and enforcing the County's animal control regulations. These funds are to be used in accordance with the agreement. Costs charged against the agreement are subject to review and acceptance by the County of Hawai'i.

Note 4. LEASES

In June 2015, a copier lease was transferred to a new non-cancelable lease with monthly payments of \$384. The future rent expense for these copiers at June 30 are:

| | |
|------|----------|
| 2017 | \$ 4,608 |
| 2018 | \$ 4,608 |
| 2019 | \$ 4,224 |

HAWAII ISLAND HUMANE SOCIETY

Notes to the Financial Statements June 30, 2016 and 2015

Note 5. NET ASSETS

The Organization has conformed to FASB ASC 958-210-45-9, “*Not-for-Profit Entities, Classifications of Net Assets*,” and the Statement of Financial Accounting Standards formerly (SFAS) No. 117, “*Financial Statement of Not-for-Profit Organization*.” Accordingly, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Unrestricted net assets represent those assets whose usage is neither temporarily nor permanently restricted by donors. These revenues are used for the general operating expenditures of the Organization or for such other purposes as determined by the Board of Directors.

The Board of Directors has selected certain unrestricted net assets to be identified as Board Designated net assets for the Capital Campaign. Board Designated Net Assets at June 30, 2016 and 2015, were \$77,156 and \$77,156, respectively.

Temporarily restricted net assets represent restricted grants and funds received from foundations and donors for which the restriction had not yet been fulfilled. The temporarily restricted net assets consisted of the following at June 30:

| | 2016 | 2015 |
|-----------------------|--------------|--------------|
| Capital Campaign | \$ 1,162,118 | \$ 1,049,638 |
| Second Chance | 156,709 | 126,127 |
| Spay/Neuter | 87,158 | 79,792 |
| Katie Fund | 63,608 | 59,973 |
| Kona Kennels | 55,463 | 55,451 |
| Kea'au Kennels | 46,261 | 44,636 |
| Education | 21,427 | 19,865 |
| Michi Haga | 20,079 | 20,601 |
| Equine Fund | 12,159 | 11,314 |
| Poi Dogs for Paradise | 7,674 | 213 |
| Waimea Kennels | 2,004 | 1,704 |
| Lava Flow | 1,657 | 1,657 |
| Wish List | 544 | 609 |
| Feral Cats Sterilize | - | 150 |
| Total | \$ 1,636,861 | \$ 1,471,730 |

Permanently restricted net assets are endowment funds restricted in perpetuity to continue the purpose of the Organization. Income generated by these assets can be used for activities as specified by the donor. At June 30, 2016 and 2015, permanently restricted net assets consisted of \$22,347 for the Spay/Neuter (S/N) program.

The Uniform Prudent Management of Institutional Funds Act (UPMIFA) applies to nonprofit organizations in Hawai'i. UPMIFA updates the prudence standard for the management and investment of charitable funds, and it amends the provisions governing the release and modification of restrictions on charitable funds. Management has evaluated the provisions of the standard and has concluded that the adoption of UPMIFA in fiscal year 2016, and 2015, did not have a significant effect on the Organization's financial statements.

HAWAII ISLAND HUMANE SOCIETY

Notes to the Financial Statements June 30, 2016 and 2015

Note 6. FUNCTIONAL EXPENSES

The Organization allocates expenses on a functional basis among three categories: direct program services, fundraising, and management and general. Expenses are allocated to the program and supporting services benefited.

Note 7. IN-KIND DONATIONS

Donated Services: Under *FASB ASC 958*, contributions of donated services that create or enhance non-financial assets or that require specialized skills, and are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received. Donated services at June 30, 2016 and 2015, are \$6,217 and \$0, respectively. A number of volunteers have donated significant amounts of their time, however no objective basis is available to measure the value of these services.

In-kind Rent: The building and land on which the Kona shelter is located belongs to the County of Hawai'i. The County provides the site at no cost to the Organization. This agreement must be renewed annually. The annual estimated value of the donated rent from the County of Hawai'i is \$25,200.

Note 8. RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES

| | <u>2016</u> | <u>2015</u> |
|---|-------------------|-------------------|
| Change in Net Assets | \$ 219,487 | \$ 1,025,546 |
| Adjustments to Reconcile: | | |
| Depreciation | 59,325 | 59,806 |
| Loss/(Gain) on Disposal | (8,165) | 3,217 |
| Adjustments to Fixed Assets | (5,528) | - |
| Change in Accounts and Pledges Receivable | 179,799 | (521,214) |
| Change in Other Current Assets | 2,626 | (20,034) |
| Change in Deposits Other | (1,800) | 200 |
| Change in Accounts Payable | (11,394) | 1,069 |
| Change in Credit Cards | (9,970) | 1,186 |
| Change in Accrued Liabilities | 20,659 | 872 |
| Net Cash Provided by Operating Activities | <u>\$ 445,039</u> | <u>\$ 550,648</u> |

Note 9. RETIREMENT PLAN

The Hawaii Island Humane Society maintains an IRA retirement plan for all eligible employees whereby the Organization contributes 5% of each eligible employee's wages. Employees are considered eligible after they have been employed by the Organization for at least two years. For the years ending June 30, 2016 and 2015, the retirement plan expenses totaled \$43,443 and \$40,602, respectively.

HAWAII ISLAND HUMANE SOCIETY

Notes to the Financial Statements June 30, 2016 and 2015

Note 10. SPAY/NEUTER PROGRAM

The Organization sells coupons that enable the patron to take their animal to a participating veterinarian for spay/neuter services. As a service to the community, the veterinarian has agreed to perform these services at a reduced rate which is the price that the client paid for the coupon. The veterinarian accepts the coupon as payment for the spay/neuter services that has been performed, and then bills the Hawaii Island Humane Society for payment of these services.

The veterinarian employed at the Organization also performs spay/neuter services accepting the Free Coupon as payment. The Organization incurs these costs in compensation to the veterinarian as well as related payroll taxes and benefits.

The Organization also provides coupons free of charge under the County of Hawai'i S/N program. See Note 11.

Note 11. S/N COUPON LIABILITY

The coupons sold through the S/N CAP program are redeemed by the patron when veterinary services are performed. Estimated amounts of \$900 and \$2,120 are recorded as a liability for the years ending June 30, 2016 and 2015, respectively, which represent the value of unredeemed coupons. Additionally in 2016, other liabilities to the County of Hawai'i included amounts owed for dog licenses and impounds.

At June 30, 2016 and 2015, the Organization was obligated to honor a number of unredeemed coupons issued for the County of Hawai'i S/N program with an associated estimated veterinarian cost of \$20,890 for 2016 and \$63,820 for 2015. No funds were received when these coupons were issued and a liability has not been recorded as the surgeries have yet to be performed.

Note 12. INCOME TAXES

The Organization is exempt from Federal income taxes under *Section 501(c)(3)* of the Internal Revenue Code, and also from State of Hawai'i income taxes under *Sections 416-19* and *416-20* of the Hawai'i Revised Statutes.

The accounting standard on accounting for uncertainty in income taxes addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under that guidance, the Organization may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the Organization and various positions related to the potential sources of unrelated business taxable income (UBIT). The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. There were no unrecognized tax benefits identified or recorded as liabilities for 2016 and 2015.

The Organization files its *Forms 990* in the U.S. Federal jurisdiction and the office of the State's Attorney General for the State of Hawai'i. The Organization is generally no longer subject to examination by the Internal Revenue Service for years before 2013.

HAWAII ISLAND HUMANE SOCIETY

Notes to the Financial Statements June 30, 2016 and 2015

Note 13. KEA'AU LAND

The Kea'au Shelter is located on three acres of land owned by the Hawaii Island Humane Society. The land was acquired in February 1968, from W.H. Shipman, Limited for the amount of \$10. The value of the land at acquisition was not reflected in the fixed assets of the Organization. At June 30, 2010, the assessed value of the land was approximately \$100,000, and was added to the capitalized assets.

Note 14. HOLUALOA LAND AND BUILDING

The Organization purchased a 12-acre parcel with three existing buildings that will require renovation prior to occupancy on April 13, 2011. Depreciation will not be taken while construction is in process. At June 30, 2016 construction in progress is \$590,890.

NOTE 15. LEASEHOLD IMPROVEMENTS

To provide enhanced quality care for animals, the Hawaii Island Humane Society has made various site improvements to the leased properties (see Note 3) including a dog park, puppy kennels, a horse shed, as well as complying with the *Americans with Disabilities Act* requirements. Total improvements to leased facilities are \$107,327 for the years ending June 30, 2016 and 2015.

NOTE 16. PLEDGE RECEIVABLE

The Organization has been conducting a fundraising capital campaign for a state-of-the-art Animal Community Center. Towards that end, many generous donors have pledged funds to be received over future fiscal years. Contributions received are recognized as support in the period the promise is received at their fair value. Pledge receivable is stated at net estimated realizable value, using a discount rate of 4% to calculate the present value allowance. Pledge receivable consists of the following as of June 30:

| | <u>2016</u> | <u>2015</u> |
|-------------------------|-------------------|-------------------|
| Gross Pledge Receivable | \$ 400,000 | \$ 630,166 |
| Present Value Allowance | <u>(12,529)</u> | <u>(25,026)</u> |
| Net Pledge Receivable | <u>\$ 387,471</u> | <u>\$ 605,140</u> |
| Amounts due in: | | |
| Less than one year | \$ 180,000 | \$ 255,166 |
| One to three years | \$ 207,471 | \$ 349,974 |

NOTE 17. RELATED PARTY

A Board of Director member is the owner of Alii Veterinary Hospital which the Hawaii Island Humane Society utilizes for veterinary care and also leases facilities. The total amount paid to Alii Veterinary Hospital during the years ending June 30, 2016 and 2015, were \$2,732 and \$9,843, respectively.

HAWAII ISLAND HUMANE SOCIETY

Notes to the Financial Statements
June 30, 2016 and 2015

NOTE 17. RELATED PARTY – continued

The husband of an executive committee Board of Directors member is the president of Tinguely Development, Inc. This company is the project manager for the Hawaii Island Humane Society's construction in progress for the development of their new facility located in Keahou, Hawaii. Tinguely Development, Inc. has also pledged \$50,000 for the capital campaign. As of June 30, 2016, the balance of the pledge, \$30,000, was outstanding.

NOTE 18. SUBSEQUENT EVENTS

In preparing these financial statements, Management has evaluated events and transactions for potential recognition or disclosure through September 15, 2016, the date the financial statements were available for use.