

**HAWAII ISLAND HUMANE SOCIETY**  
(A Hawaii Nonprofit Corporation)

**AUDITED FINANCIAL STATEMENTS  
WITH INDEPENDENT AUDITOR'S REPORT**

**FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**

# 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, 2019 and 2018, 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, 2019 and 2018, and the related statements of activities and changes in net assets, functional expenses 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 Matters**

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.

*Carbonaro CPAs & Management Group*

Hilo, Hawai'i  
October 25, 2019

HAWAII ISLAND HUMANE SOCIETY  
**Statements of Financial Position**  
For the Years Ended June 30, 2019 and 2018

	<b>ASSETS</b>	
	2019	2018
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents (Note 2)	\$ 1,580,364	\$ 3,168,135
Other Current Assets		
Accounts Receivable	1,225	17,956
Pledge Receivable, net of Allowance (Note 16)	6,000	54,500
Prepaid Expense	1,652	12,202
Retail Inventory (Note 2)	12,140	12,140
Total Other Current Assets	21,017	96,798
Total Current Assets	1,601,381	3,264,933
<b>PROPERTY AND EQUIPMENT (Note 2)</b>		
Kea'au Land	100,000	100,000
Hohualoa Land (Note 14)	452,646	452,646
Buildings	871,502	871,502
Vehicles	447,995	400,558
Equipment - Office	69,689	69,689
Operating Room Equipment	54,292	49,084
Leasehold Improvements (Note 15)	162,945	162,945
Land Improvement - Dog Park	1,184,222	1,184,222
Construction In Progress (Note 14)	3,745,688	1,551,980
Miscellaneous Assets	21,954	21,954
	7,110,933	4,864,580
Accumulated Depreciation	(839,797)	(755,618)
Net Property and Equipment	6,271,136	4,108,962
<b>OTHER ASSETS</b>		
Investments (Note 4)	24,400	25,894
Deposits - Other	500	808
Total Other Assets	24,900	26,702
<b>TOTAL ASSETS</b>	<b>\$ 7,897,417</b>	<b>\$ 7,400,597</b>

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, 2019 and 2018

**LIABILITIES AND NET ASSETS**

	<u>2019</u>	<u>2018</u>
<b>CURRENT LIABILITIES</b>		
Accounts Payable	\$ 497,468	\$ 89,389
S/N Coupon and Other County Payables (Note 12)	3,969	3,371
Credit Card Payable	8,533	2,611
Total Current Liabilities	<u>509,970</u>	<u>95,371</u>
<b>OTHER CURRENT LIABILITIES</b>		
Accrued Wages	54,516	47,919
Accrued Vacation Payable	18,120	32,351
Accrued Payroll Taxes and Benefits	21,561	18,406
Total Other Current Liabilities	<u>94,197</u>	<u>98,676</u>
<b>TOTAL CURRENT LIABILITIES</b>	604,167	194,047
<b>NET ASSETS (Note 8)</b>		
Net Assets Without Donor Restriction	6,510,169	4,689,355
Net Assets With Donor Restriction	783,081	2,517,195
Total Net Assets	<u>7,293,250</u>	<u>7,206,550</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 7,897,417</u>	<u>\$ 7,400,597</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, 2019

	Without Donor Restriction	With Donor Restriction		2019 Total
		Temporarily	Permanently	
<b>PUBLIC SUPPORT AND REVENUE</b>				
County of Hawai'i	\$ 2,081,625	\$ -	\$ -	\$ 2,081,625
Donations	13,266	805,534	-	818,800
Fundraising	279,887	-	-	279,887
Adoptions	148,756	-	-	148,756
Grants	5,000	112,483	-	117,483
Donated Services (Note 7)	40,606	-	-	40,606
Donated Rent (Note 7)	25,200	-	-	25,200
Sales	20,066	-	-	20,066
Cost of Goods Sold (Note 2)	(4,804)	-	-	(4,804)
Miscellaneous Revenue	16,273	-	-	16,273
Humane Shelter Services	15,485	-	-	15,485
S/N CAP Coupon Sales (Note 11)	922	-	-	922
Gain on Sale of Asset	500	-	-	500
Recycling	-	-	-	-
Net Assets Released from Restrictions	2,652,131	(2,652,131)	-	-
<b>Total Public Support and Revenue</b>	<b>5,294,913</b>	<b>(1,734,114)</b>	<b>-</b>	<b>3,560,799</b>
<b>EXPENSES</b>				
Program Expenses	3,080,998	-	-	3,080,998
Management and General	318,971	-	-	318,971
Fundraising Expenses	74,130	-	-	74,130
<b>Total Expenses</b>	<b>3,474,099</b>	<b>-</b>	<b>-</b>	<b>3,474,099</b>
<b>CHANGE IN NET ASSETS</b>	<b>\$ 1,820,814</b>	<b>\$ (1,734,114)</b>	<b>\$ -</b>	<b>\$ 86,700</b>
NET ASSETS, BEGINNING OF YEAR	4,689,355	2,494,821	22,374	7,206,550
NET ASSETS, END OF YEAR	\$ 6,510,169	\$ 760,707	\$ 22,374	\$ 7,293,250

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, 2018

	Without Donor Restriction	With Donor Restriction		2018 Total
		Temporarily	Permanently	
<b>PUBLIC SUPPORT AND REVENUE</b>				
County of Hawai'i	\$ 2,081,625	\$ -	\$ -	\$ 2,081,625
Donations	205,142	3,003,390	-	3,208,532
Fundraising	250,300	-	-	250,300
Adoptions	140,900	-	-	140,900
Grants	-	275,000	-	275,000
Donated Services (Note 7)	4,150	-	-	4,150
Donated Rent (Note 7)	25,200	-	-	25,200
Sales	25,125	-	-	25,125
Cost of Goods Sold (Note 2)	(3,977)	-	-	(3,977)
Miscellaneous Revenue	8,103	-	-	8,103
Humane Shelter Services	12,593	-	-	12,593
S/N CAP Coupon Sales (Note 11)	1,677	-	-	1,677
Gain on Sale of Asset	11,736	-	-	11,736
Recycling	662	-	-	662
Net Assets Released from Restrictions	1,997,588	(1,997,588)	-	-
<b>Total Public Support and Revenue</b>	<b>4,760,824</b>	<b>1,280,802</b>	<b>-</b>	<b>6,041,626</b>
<b>EXPENSES</b>				
Program Expenses	2,669,754	-	-	2,669,754
Management and General	278,244	-	-	278,244
Fundraising Expenses	151,195	-	-	151,195
<b>Total Expenses</b>	<b>3,099,193</b>	<b>-</b>	<b>-</b>	<b>3,099,193</b>
<b>CHANGE IN NET ASSETS</b>	<b>\$ 1,661,631</b>	<b>\$ 1,280,802</b>	<b>\$ -</b>	<b>\$ 2,942,433</b>
NET ASSETS, BEGINNING OF YEAR	3,027,724	1,214,019	22,374	4,264,117
NET ASSETS, END OF YEAR	\$ 4,689,355	\$ 2,494,821	\$ 22,374	\$ 7,206,550



HAWAII ISLAND HUMANE SOCIETY

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

	Program Services	Supporting Services		2019 Total
		Management and General	Fundraising	
Salaries and Wages	\$ 1,205,947	\$ 135,500	\$ 13,550	\$ 1,354,997
Kennel Supplies, Food and Medicine	361,333	-	-	361,333
Employee Benefits	251,226	28,228	2,823	282,276
Legal and Professional Services	137,115	48,176	-	185,291
Surgery Programs and Supplies	147,662	13,717	-	161,379
Payroll Taxes	116,468	13,086	1,309	130,863
Utilities	112,319	7,169	-	119,488
Depreciation	110,641	-	-	110,641
Auto Expense	107,959	-	-	107,959
Repairs and Maintenance	63,642	34,269	-	97,910
Insurance	86,738	5,536	-	92,274
Adoption Expense	58,984	-	-	58,984
Office Supplies	38,714	9,679	-	48,393
Fundraising Expense	-	-	47,508	47,508
In-Kind - Service (Note 7)	40,606	-	-	40,606
Advertising	40,096	-	-	40,096
Veterinary Care and Evidence Animals	34,897	-	-	34,897
Rent, including In-kind Rent (Note 7)	31,279	1,250	-	32,529
Animal Disposal	26,911	-	-	26,911
Network Expense	15,613	10,409	-	26,022
Printing	17,014	-	895	17,909
Bank and Credit Card Fees	12,556	-	3,139	15,695
General Excise Tax and Other Taxes	11,332	-	3,982	15,314
Meals and Travel	12,333	2,349	-	14,682
Other Expenses	9,924	2,178	-	12,101
Staff Meeting and Training	7,875	3,063	-	10,938
Uniforms	8,663	-	-	8,663
Animal Control Equipment	5,517	-	-	5,517
Dues, Licenses, Subscriptions	3,059	2,308	-	5,367
Postage and Freight	2,158	2,056	925	5,139
Humane Education	2,417	-	-	2,417
<b>TOTAL EXPENSES</b>	<b>\$ 3,080,998</b>	<b>\$ 318,971</b>	<b>\$ 74,130</b>	<b>\$ 3,474,099</b>

HAWAII ISLAND HUMANE SOCIETY

**Statement of Functional Expenses**  
For the Year Ended June 30, 2018

	Program Services	Supporting Services		2018 Total
		Management and General	Fundraising	
Salaries and Wages	\$ 1,141,503	\$ 128,259	\$ 12,826	\$ 1,282,588
Kennel Supplies, Food and Medicine	290,817	-	-	290,817
Employee Benefits	230,399	25,888	2,589	258,876
Legal and Professional Services	65,580	23,042	-	88,622
Surgery Programs and Supplies	149,042	13,845	-	162,887
Payroll Taxes	135,236	15,195	1,520	151,951
Utilities	100,803	6,434	-	107,237
Depreciation	46,505	-	-	46,505
Auto Expense	99,334	-	-	99,334
Repairs and Maintenance	59,775	32,187	-	91,962
Insurance	66,727	4,259	-	70,986
Adoption Expense	51,240	-	-	51,240
Office Supplies	29,706	7,427	-	37,133
Fundraising Expense	-	-	125,613	125,613
In-Kind - Service (Note 7)	4,150	-	-	4,150
Advertising	43,386	-	-	43,386
Veterinary Care and Evidence Animals	17,041	-	-	17,041
Rent, including In-kind Rent (Note 7)	30,484	1,250	-	31,734
Animal Disposal	26,376	-	-	26,376
Network Expense	16,921	11,281	-	28,202
Printing	14,868	-	783	15,651
Bank and Credit Card Fees	8,238	-	2,059	10,297
General Excise Tax and Other Taxes	12,988	-	4,564	17,552
Meals and Travel	3,108	592	-	3,700
Other Expenses	6,184	1,358	-	7,542
Staff Meeting and Training	3,752	1,459	-	5,211
Uniforms	4,185	-	-	4,185
Animal Control Equipment	2,933	-	-	2,933
Dues, Licenses, Subscriptions	3,987	3,008	-	6,995
Postage and Freight	2,903	2,759	1,241	6,903
Humane Education	1,584	-	-	1,584
<b>TOTAL EXPENSES</b>	<b>\$ 2,669,754</b>	<b>\$ 278,244</b>	<b>\$ 151,195</b>	<b>\$ 3,099,193</b>

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, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Hawai'i County Funding	\$ 2,081,625	\$ 2,081,625
Retail Sales and Services to Public	318,521	437,401
Fundraising	279,887	250,300
S/N CAP Coupon Sales	922	2,928
Foundations and Other Donations	867,300	3,176,532
Other Cash Received	14,779	8,765
Cash Paid to Employees and Vendors	<u>(2,919,984)</u>	<u>(3,056,723)</u>
Net Cash Provided by Operating Activities (Note 19)	643,050	2,900,828
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from Investments	1,494	39,694
Proceeds from Asset Sale	500	11,736
Cash Used to Purchase Property and Equipment	(39,108)	(1,433,835)
Cash Used for Construction in Process	<u>(2,193,707)</u>	<u>(393,604)</u>
Net Cash Used by Investing Activities	(2,230,821)	(1,776,009)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	-	-
<b>Net (Decrease) Increase in Cash for the Year</b>	<b>(1,587,771)</b>	<b>1,124,819</b>
CASH BALANCE, BEGINNING OF YEAR	<u>3,168,135</u>	<u>2,043,316</u>
CASH BALANCE, END OF YEAR	<u><u>\$ 1,580,364</u></u>	<u><u>\$ 3,168,135</u></u>
<hr/>		
Supplemental Non-Cash Investing Activities		
Construction in Progress in Accounts Payable	\$ 328,209	\$ 70,351

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, 2019 and 2018

	2019			2018		
	Animal Control	S/N CAP	Total	Animal Control	S/N CAP	Total
<b>Receipts:</b>						
County of Hawai'i Contracted Funds	\$ 1,860,900	\$ 220,725	\$ 2,081,625	\$ 1,860,900	\$ 220,725	\$ 2,081,625
Gain on Sale of Asset	500	-	500	521	-	521
<b>Total Receipts</b>	<b>1,861,400</b>	<b>220,725</b>	<b>2,082,125</b>	<b>1,861,421</b>	<b>220,725</b>	<b>2,082,146</b>
<b>Operating Expenses</b>						
Salaries and Wages	889,926	-	889,926	963,641	-	963,641
Surgery Programs and Supplies (Note 11)	-	195,831	195,831	-	223,022	223,022
Kennel Supplies, Food and Medicine	209,199	-	209,199	195,165	-	195,165
Employee Benefits	176,123	-	176,123	191,494	-	191,494
Utilities	102,388	-	102,388	84,931	-	84,931
Payroll Taxes	99,642	-	99,642	104,705	-	104,705
Auto Expense	95,380	-	95,380	86,835	-	86,835
Insurance	60,885	-	60,885	55,010	-	55,010
Legal and Professional Services	50,757	-	50,757	5,561	-	5,561
Outside Services/Contract Labor	47,967	-	47,967	50,684	-	50,684
Repairs and Maintenance	43,520	-	43,520	55,685	-	55,685
Animal Disposal	26,911	-	26,911	26,376	-	26,376
Advertising	19,326	-	19,326	19,665	-	19,665
Office Supplies	11,235	-	11,235	12,180	-	12,180
Network Expense	10,809	-	10,809	12,059	-	12,059
Office Equipment and Rentals	10,438	-	10,438	8,571	-	8,571
Uniforms	7,752	-	7,752	4,168	-	4,168
Travel and Mileage	6,428	-	6,428	2,474	-	2,474
Staff Meeting and Training	5,071	-	5,071	2,348	-	2,348
Animal Control Equipment	5,056	-	5,056	2,933	-	2,933
Bank and Credit Card Fees	2,667	-	2,667	5,599	-	5,599
Dues, Licenses, Subs, Taxes	1,884	-	1,884	2,088	-	2,088
Postage and Freight	786	-	786	1,761	-	1,761
Veterinary Care and Evidence Animals	54	-	54	-	-	-
Taxes, Property, Other	-	-	-	930	-	930
Surgical Supplies	-	-	-	499	-	499
Printing	-	-	-	155	-	155
<b>Total Operating Expenses</b>	<b>1,884,204</b>	<b>195,831</b>	<b>2,080,035</b>	<b>1,895,517</b>	<b>223,022</b>	<b>2,118,539</b>
Capital Lease Payments	-	-	-	-	-	-
Fixed Assets Purchased	-	-	-	-	-	-
<b>Excess Receipts Over (Under) Disbursements</b>	<b>\$ (22,804)</b>	<b>\$ 24,894</b>	<b>\$ 2,090</b>	<b>\$ (34,096)</b>	<b>\$ (2,297)</b>	<b>\$ (36,393)</b>

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

## HAWAII ISLAND HUMANE SOCIETY

Notes to the Financial Statements  
June 30, 2019 and 2018

### 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, 2019 and 2018, were \$4,804 and \$3,977, respectively.

*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.

*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.

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

*Reclassifications:* Certain account balances in the financial statements for the fiscal year ended June 30, 2018, have been reclassified for comparative purposes to conform to the presentation for fiscal year ended June 30, 2019. These had no effect on the Total Assets reported for the fiscal year ended June 30, 2018.

# HAWAII ISLAND HUMANE SOCIETY

## Notes to the Financial Statements June 30, 2019 and 2018

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

*Cash and Cash Equivalent and Concentration of Risk:* 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 Organization maintains cash balances at financial institutions that may at times exceed the FDIC insured limits. Management acknowledges the possibility of risk in this arrangement; however, the size and longevity of the depository institutions minimizes such risk. The following is a summary of deposits as of June 30:

	<u>2019</u>	<u>2018</u>
Fully Insured Deposits	\$ 861,252	\$ 836,548
Uninsured and Uncollateralized	<u>719,112</u>	<u>2,331,587</u>
	<u>\$ 1,580,364</u>	<u>\$ 3,168,135</u>

### Note 3. CONCENTRATIONS

The Organization received approximately 58% and 35% of its revenue from the County of Hawai'i as of June 30, 2019 and 2018, 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. INVESTMENTS

*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, 2019 and 2018

#### Note 4. INVESTMENTS - 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, 2019				
Assets	Total	Quoted Prices: Level 1	Significant Other Inputs: Level 2	Significant Non- Observable Inputs: Level 3
Certificate of Deposit	\$ 24,400	\$ 24,400	\$ -	\$ -
Annuity Contracts*	-	-	-	-
Mutual Funds	-	-	-	-
Total	<u>\$ 24,400</u>	<u>\$ 24,400</u>	<u>\$ -</u>	<u>\$ -</u>
June 30, 2018				
Assets	Total	Quoted Prices: Level 1	Significant Other Inputs: Level 2	Significant Non- Observable Inputs: Level 3
Certificate of Deposit	\$ 24,204	\$ 24,204	\$ -	\$ -
Annuity Contracts*	1,690	-	-	1,690
Mutual Funds	-	-	-	-
Total	<u>\$ 25,894</u>	<u>\$ 24,204</u>	<u>\$ -</u>	<u>\$ 1,690</u>

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

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

	Level 3 2019	Level 3 2018
Balance Beginning of Year	\$ 1,690	\$ 5,693
Capital Distributions	-	43
Net Unrealized and Realized Losses	(1,690)	(4,046)
Balance Ending of Year	<u>\$ -</u>	<u>\$ 1,690</u>

#### Note 5. LEASES

The Organization has a cancellable lease to rent space from Parker Ranch for the Waimea facilities. The future minimum lease payments is \$6,000 for the year ending June 30, 2020.

In June 2015, a copier lease was transferred to a new non-cancelable lease with monthly payments of \$384.

## HAWAII ISLAND HUMANE SOCIETY

### Notes to the Financial Statements June 30, 2019 and 2018

#### Note 5. LEASES - continued

The future rent expense for these copiers at June 30 are:

2020	\$ 11,548
2021	10,192
2022	853
Total	<u>\$ 22,593</u>

#### 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. Expense allocations are generally computed based on the number of employees or contractors performing program or administrative functions.

#### 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, 2019 and 2018 are \$40,606 and \$4,150, 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. NET ASSETS AND NEW ACCOUNTING PRONOUNCEMENTS

On August 18, 2016, the FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. Hawaii Island Humane Society has adjusted the presentation of its financial statements accordingly, applying the changes retrospectively to the comparative period presented. The new standards change the following aspects of the Organization's financial statements:

The temporarily restricted net asset class has been renamed net assets with donor restrictions. The unrestricted net asset class has been renamed net assets without donor restrictions.

Net assets, revenue, and support are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:



## HAWAII ISLAND HUMANE SOCIETY

### Notes to the Financial Statements June 30, 2019 and 2018

Note 8. NET ASSETS - continued

Net assets without donor restrictions include all resources that are not subject to donor-imposed stipulations or contributions with donor-imposed restrictions that are met during the same year as the contribution is made. Net assets without donor restrictions denoted as property and equipment represent equity in such property and equipment. The Board of Directors has selected certain net assets without donor restriction to be identified as Board Designated net assets for the Capital Campaign. Board Designated Net Assets at June 30, 2019 and 2018, were \$77,156.

Net assets with donor restriction include amounts that the donor subjects to restrictions in perpetuity and amounts subject to legal or donor-imposed stipulations that may or will be met either by actions of the organization and/or passage of time.

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

	2019	2018
Capital Campaign	\$ 203,820	\$ 1,968,562
Mobile Spay/Neuter	161,351	-
Second Chance	137,834	145,605
Kea'au Kennels	60,333	67,424
Transfer Program	47,833	-
Katie Fund	47,624	49,813
Lava Flow	27,448	26,215
Spay/Neuter	23,959	181,163
Equine Fund	21,565	24,983
Michi Haga	19,479	19,479
Education	5,725	8,249
Waimea Kennels	3,196	3,328
Kona Kennels	540	-
Total	\$ 760,707	\$ 2,494,821

Net assets with donor restriction include the permanently restricted net assets. Net assets with donor restriction-permanent restriction 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, 2019 and 2018, permanently restricted net assets consisted of \$22,374 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 2019, and 2018, did not have a significant effect on the Organization's financial statements.

The financial statements include a new disclosure about liquidity and availability of resources (Note 10).

## HAWAII ISLAND HUMANE SOCIETY

Notes to the Financial Statements  
June 30, 2019 and 2018

### Note 8. NET ASSETS - continued

The changes have the following effect on net assets at June 30, 2018:

<u>Net Asset Class</u>	<u>As Originally Presented</u>	<u>After Adoption of ASU 2016-14</u>
Unrestricted Net Assets	\$ 4,612,226	
Board Designated	77,156	
Temporarily Restricted Net Assets	2,494,821	
Permanently Restricted	22,374	
Net Assets Without Donor Restriction		\$ 4,689,382
Net Assets With Donor Restriction		2,517,195
Total Net Assets	<u>\$ 7,206,577</u>	<u>\$ 7,206,577</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, 2019 and 2018, the retirement plan expenses totaled \$35,354 and \$41,264, respectively.

### Note 10. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

Management's policy is to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due.

Financial Assets at June 30, 2019	\$ 1,580,364
Less amounts unavailable to general expenditures:	
Donor Restricted Current Net Assets	<u>(760,707)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 819,657</u>

### Note 11. 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.

## HAWAII ISLAND HUMANE SOCIETY

Notes to the Financial Statements  
June 30, 2019 and 2018

### Note 11. SPAY/NEUTER PROGRAM - continued

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 12.

### Note 12. 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 \$3,969 and \$3,371 are recorded as a liability for the years ending June 30, 2019 and 2018, respectively.

At June 30, 2019 and 2018, 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 \$34,190 and \$35,520 at June 30, 2019 and 2018, respectively. 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 13. 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 2019 and 2018.

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 2016.

### Note 14. HOUALOA 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, 2019,

# HAWAII ISLAND HUMANE SOCIETY

Notes to the Financial Statements  
June 30, 2019 and 2018

## Note 14. HOLUALOA LAND AND BUILDING - continued

construction in progress is \$3,745,688 and the project is expected to be completed by December 31, 2019 for a total cost of \$12,000,000.

## Note 15. LEASEHOLD IMPROVEMENTS

To provide enhanced quality care for animals, the Hawaii Island Humane Society has made various site improvements to leased properties 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 \$162,945 for the years ending June 30, 2019 and 2018.

## 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. The pledge receivable is stated at net estimated realizable value, using a discount rate of 4% to calculate the present value allowance, when applicable to multi-year pledges. Pledge receivable consists of the following as of June 30:

	<u>2019</u>	<u>2018</u>
Gross Pledge Receivable	\$ 6,000	\$ 54,500
Present Value Allowance	-	-
Net Pledge Receivable	<u>\$ 6,000</u>	<u>\$ 54,500</u>
Amounts due in:		
Less than one year	\$ 6,000	\$ 48,500
One to three years	\$ -	\$ 6,000

## 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, 2019 and 2018, were \$10,131 and \$7,628, respectively.

## Note 18. SUBSEQUENT EVENTS

In preparing these financial statements, Management has evaluated events and transactions for potential recognition or disclosure through October 25, 2019, the date the financial statements were available for use.

## HAWAII ISLAND HUMANE SOCIETY

Notes to the Financial Statements  
June 30, 2019 and 2018

### Note 19 RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES

	2019	2018
Change in Net Assets	\$ 86,700	\$ 2,942,433
Adjustments to Reconcile:		
Depreciation	110,641	46,505
Loss/(Gain) on Disposal	(500)	(11,736)
Change in Accounts and Pledges Receivable	65,231	(48,217)
Change in Other Current Assets	10,550	1,807
Change in Deposits Other	308	6,392
Change in Accounts Payable	368,677	(49,708)
Change in Credit Card Payable	5,922	375
Change in Accrued Liabilities	(4,479)	12,977
Net Cash Provided by Operating Activities	\$ 643,050	\$ 2,900,828

### Note 20. RECENT ACCOUNTING PRONOUNCEMENTS

In February 2016, the FASB issued ASU 2016-02, Leases, which supersedes FASB Accounting Standards Codification (ASC) Topic 840, Leases, and makes other conforming amendments to U.S. GAAP. ASU 2016-02, requires, among other changes to the lease accounting guidance, lessees to recognize most leases on the balance sheet via a right-of-use asset and lease liability as well as additional qualitative and quantitative disclosures. ASU 2016-02 is effective for the Organization's fiscal years beginning after December 15, 2019, but permits early adoption, and mandates a modified retrospective transition method. The provisions are effective for the Organization's fiscal year ending June 30, 2021. Management is currently evaluating the impact that the adoption of these provisions will have on the financial statements, but expects ASU 2016-02 to add significant right-of-use assets and lease liabilities to the statement of financial position.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash, which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. As a result, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The new standard amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted. The provisions are effective for the Organization's fiscal year ending June 30, 2021. The amendments should be applied using a retrospective transition method to each period presented. Management is currently evaluating the impact that the adoption of these provisions will have on the financial statements.

### Note 21. CONTINGENCIES

The Organization is involved in an administrative claim arising in the normal course of business. The claim is from a current employee. As the outcome of this claim is unknown, no contingent liability associated with this issue has been recorded in the Organization's financial statements.