

HAWAII ISLAND HUMANE SOCIETY  
(A Hawaii Nonprofit Corporation)

AUDITED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

# HAWAII ISLAND HUMANE SOCIETY

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Certified Public Accountants  
Member: AICPA  
HSCPA

## 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, 2014 and 2013, 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, 2014 and 2013, 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 Activity 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.

A handwritten signature in cursive script that reads "Caulonano CPAs".

Hilo, Hawai'i  
September 25, 2014

HAWAII ISLAND HUMANE SOCIETY  
**Statements of Financial Position**  
For the Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 1,283,643	\$ 800,912
Other Current Assets		
Accounts Receivable	2,016	383
Pledge Receivable (Note 16)	83,600	60,346
Prepaid Expense	2,749	30,631
Retail Inventory	1,222	8,330
Total Other Current Assets	<u>89,587</u>	<u>99,690</u>
Total Current Assets	<u>1,373,230</u>	<u>900,602</u>
<b>PROPERTY AND EQUIPMENT (Note 2)</b>		
Kea'au Land (Note 13)	100,000	100,000
Holualoa Land (Note 14)	452,646	452,646
Buildings	871,502	871,502
Vehicles	306,413	298,976
Equipment - Office	125,963	123,172
Operating Room Equipment	49,084	49,084
Leasehold Improvements (Note 15)	102,633	102,633
Miscellaneous Assets	21,954	21,954
	<u>2,030,195</u>	<u>2,019,967</u>
Accumulated Depreciation and Amortization	<u>(753,479)</u>	<u>(678,912)</u>
Net Property and Equipment	<u>1,276,716</u>	<u>1,341,055</u>
<b>OTHER ASSETS</b>		
Certificate of Deposit (Note 2)	23,505	23,281
Annuity Contracts (Note 2)	24,248	30,714
Deposits - Other	5,200	-
Total Other Assets	<u>52,953</u>	<u>53,995</u>
<b>TOTAL ASSETS</b>	<u>\$ 2,702,899</u>	<u>\$ 2,295,652</u>

HAWAII ISLAND HUMANE SOCIETY

**Statements of Financial Position**  
For the Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<b>LIABILITIES AND NET ASSETS</b>		
CURRENT LIABILITIES		
Accounts Payable	\$ 47,570	\$ 70,280
S/N Coupon Liability (Note 11)	4,750	14,545
Credit Cards	10,364	10,052
Total Accounts Payable and Credit Cards	<u>62,684</u>	<u>94,877</u>
OTHER CURRENT LIABILITIES		
Accrued Wages	23,870	46,602
Accrued Vacation Payable	29,262	30,102
Accrued Payroll Taxes and Benefits	8,023	18,632
Current Portion of Capitalized Leases (Note 4)	16,843	14,947
Total Other Current Liabilities	<u>77,998</u>	<u>110,283</u>
TOTAL CURRENT LIABILITIES	140,682	205,160
LONG TERM LIABILITIES		
Capitalized Leases Payable (Note 4)	9,207	26,049
Total Long Term Liabilities	<u>9,207</u>	<u>26,049</u>
TOTAL LIABILITIES	149,889	231,209
NET ASSETS (Note 5)		
Unrestricted	1,473,128	1,440,997
Board Designated	178,445	18,400
Unrestricted Net Assets	<u>1,651,573</u>	<u>1,459,397</u>
Temporarily Restricted	879,090	582,699
Permanently Restricted	22,347	22,347
Total Net Assets	<u>2,553,010</u>	<u>2,064,443</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,702,899</u>	<u>\$ 2,295,652</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, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	2014 Total
<b>PUBLIC SUPPORT AND REVENUE</b>				
County of Hawai'i	\$ 1,961,875	\$ -	\$ -	\$ 1,961,875
Donated Services (Note 7)	5,000	-	-	5,000
Donations	525,273	188,877	-	714,150
Fundraising	60,983	117,196	-	178,179
Grants	-	152,060	-	152,060
Adoptions	135,754	-	-	135,754
S/N CAP Coupon Sales (Note 10)	70,277	-	-	70,277
Donated Rent (Note 3)	25,200	-	-	25,200
Sales	24,809	-	-	24,809
Cost of Goods Sold (Note 20)	(17,636)	-	-	(17,636)
Miscellaneous Revenue	5,990	10,469	-	16,459
Humane Shelter Services	16,804	-	-	16,804
Recycling	1,339	-	-	1,339
Net Assets Released from Restrictions	172,211	(172,211)	-	-
<b>Total Public Support and Revenue</b>	<u>2,987,879</u>	<u>296,391</u>	<u>-</u>	<u>3,284,270</u>
<b>EXPENSES</b>				
Program Expenses	2,401,606	-	-	2,401,606
Supporting Services	243,514	-	-	243,514
Fundraising Expenses	150,583	-	-	150,583
<b>Total Expenses</b>	<u>2,795,703</u>	<u>-</u>	<u>-</u>	<u>2,795,703</u>
<b>CHANGE IN NET ASSETS</b>	<b>\$ 192,176</b>	<b>\$ 296,391</b>	<b>\$ -</b>	<b>\$ 488,567</b>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>1,459,397</u>	<u>582,699</u>	<u>22,347</u>	<u>2,064,443</u>
<b>NET ASSETS, END OF YEAR</b>	<u><u>\$ 1,651,573</u></u>	<u><u>\$ 879,090</u></u>	<u><u>\$ 22,347</u></u>	<u><u>\$ 2,553,010</u></u>

HAWAII ISLAND HUMANE SOCIETY  
**Statement of Activities and Change in Net Assets**  
For the Year Ended June 30, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	2013 Total
<b>PUBLIC SUPPORT AND REVENUE</b>				
County of Hawai'i	\$ 1,900,000	\$ -	\$ -	\$ 1,900,000
Donated Services (Note 7)	816,962	-	-	816,962
Donations	407,760	228,290	-	636,050
Adoptions	139,467	-	-	139,467
Fundraising	85,054	11,000	-	96,054
S/N CAP Coupon Sales (Note 10)	106,978	-	-	106,978
Sales	31,526	-	-	31,526
Cost of Goods Sold (Note 20)	(19,984)	-	-	(19,984)
Grants	30,870	-	-	30,870
Donated Rent (Note 3)	25,200	-	-	25,200
Humane Shelter Services	17,165	-	-	17,165
Miscellaneous Revenue	5,447	-	-	5,447
Recycling	1,740	-	-	1,740
Net Assets Released from Restrictions	99,458	(99,458)	-	-
<b>Total Public Support and Revenue</b>	<u>3,647,643</u>	<u>139,832</u>	<u>-</u>	<u>3,787,475</u>
<b>EXPENSES</b>				
Program Expenses	2,331,149	-	-	2,331,149
Supporting Services	277,318	-	-	277,318
Fundraising Expenses	208,488	-	-	208,488
<b>Total Expenses</b>	<u>2,816,955</u>	<u>-</u>	<u>-</u>	<u>2,816,955</u>
<b>CHANGE IN NET ASSETS</b>	<b>\$ 830,688</b>	<b>\$ 139,832</b>	<b>\$ -</b>	<b>\$ 970,520</b>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>628,709</u>	<u>442,867</u>	<u>22,347</u>	<u>1,093,923</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 1,459,397</u>	<u>\$ 582,699</u>	<u>\$ 22,347</u>	<u>\$ 2,064,443</u>



HAWAII ISLAND HUMANE SOCIETY

Statement of Functional Expenses  
For the Year Ended June 30, 2014

	Program Services	Supporting Services	Fundraising	2014 Total
Salaries and Wages	\$ 1,093,640	\$ 126,700	\$ 14,250	\$ 1,234,590
Employee Benefits	224,979	26,163	4,210	255,352
Kennel Supplies, Food and Medicine	226,780	-	-	226,780
Payroll Taxes	119,719	13,803	1,200	134,722
Surgery Programs and Supplies	113,380	10,574	-	123,954
Fundraising Expense	-	-	124,230	124,230
Utilities	91,661	5,734	-	97,395
Auto Expense	95,564	-	-	95,564
Depreciation	74,567	-	-	74,567
Insurance	66,363	4,576	-	70,939
Legal and Professional Services	33,273	11,513	-	44,786
Repairs and Maintenance	28,999	15,614	-	44,613
Advertising	40,594	-	-	40,594
Office Supplies	26,831	6,708	-	33,539
Rent	25,200	1,250	-	26,450
Network Expense	12,749	8,499	-	21,248
Other Expenses	7,954	1,774	-	9,728
Animal Disposal	18,600	-	-	18,600
Staff Meeting and Training	12,338	4,796	-	17,134
Printing	15,482	-	813	16,295
Veterinary Care and Evidence Animals	14,550	-	-	14,550
Animal Control Equipment	11,595	-	-	11,595
General Excise Tax and Other Taxes	9,000	-	3,163	12,163
Humane Education	8,772	-	-	8,772
Bank and Credit Card Fees	5,786	148	1,483	7,417
Postage and Freight	2,952	2,791	1,234	6,977
Uniforms	5,671	-	-	5,671
Meals and Travel	4,662	891	-	5,553
In Kind - Service (Note 7)	5,000	-	-	5,000
Dues, Licenses, Subscriptions	2,643	1,980	-	4,623
Adoption Expense	2,302	-	-	2,302
Interest	-	-	-	-
<b>TOTAL EXPENSES</b>	<b>\$ 2,401,606</b>	<b>\$ 243,514</b>	<b>\$ 150,583</b>	<b>\$ 2,795,703</b>

HAWAII ISLAND HUMANE SOCIETY

Statement of Functional Expenses  
For the Year Ended June 30, 2013

	Program Services	Supporting Services	Fundraising	2013 Total
Salaries and Wages	\$ 1,074,132	\$ 124,105	\$ 13,053	\$ 1,211,290
Employee Benefits	196,746	22,732	2,391	221,869
Kennel Supplies, Food and Medicine	227,136	-	-	227,136
Payroll Taxes	123,674	14,289	1,503	139,466
Surgery Programs and Supplies	148,374	12,560	1,041	161,975
Fundraising Expense	-	-	184,232	184,232
Utilities	92,639	5,913	-	98,552
Auto Expense	95,723	-	-	95,723
Depreciation	73,362	-	-	73,362
Insurance	44,925	3,098	-	48,023
Legal and Professional Services	25,609	15,068	-	40,677
Repairs and Maintenance	41,643	22,423	-	64,066
Advertising	2,144	40,070	-	42,214
Office Supplies	19,115	4,779	-	23,894
Rent	25,200	1,250	-	26,450
Network Expense	5,541	3,694	-	9,235
Other Expenses	5,240	518	-	5,758
Animal Disposal	17,460	-	-	17,460
Staff Meeting and Training	6,996	2,720	-	9,716
Printing	8,092	-	425	8,517
Veterinary Care and Evidence Animals	13,286	-	-	13,286
Animal Control Equipment	25,412	-	-	25,412
General Excise Tax and Other Taxes	7,150	-	2,780	9,930
Humane Education	12,709	-	-	12,709
Bank and Credit Card Fees	8,520	218	2,185	10,923
Postage and Freight	2,100	1,986	878	4,964
Uniforms	3,569	-	-	3,569
Meals and Travel	3,372	645	-	4,017
In Kind - Service (Note 7)	-	-	-	-
Dues, Licenses, Subscriptions	1,668	1,250	-	2,918
Adoption Expense	2,554	-	-	2,554
Interest	17,058	-	-	17,058
<b>TOTAL EXPENSES</b>	<b>\$ 2,331,149</b>	<b>\$ 277,318</b>	<b>\$ 208,488</b>	<b>\$ 2,816,955</b>

HAWAII ISLAND HUMANE SOCIETY

Statements of Cash Flows

For the Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Hawai'i County Funding	\$ 1,961,875	\$ 1,900,000
Retail Sales and Services to Public	177,367	188,158
Fundraising	178,179	96,054
S/N CAP Coupon Sales	70,277	106,978
Foundations and Other Donations	840,940	602,753
Other Cash Received	17,798	7,187
Cash Paid for Interest	-	(17,058)
Cash Paid to Employees and Vendors	<u>(2,744,773)</u>	<u>(2,715,679)</u>
Net Cash Provided by Operating Activities (Note 8)	501,663	168,393
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Cash Used to Purchase Certificates of Deposit	(224)	(232)
Proceeds from Annuity Contracts	6,466	6,346
Cash Used to Purchase Property and Equipment	<u>(10,228)</u>	<u>(11,735)</u>
Net Cash Used by Investing Activities	(3,986)	(5,621)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
- Principal Payments on Lease Payable	(14,946)	(13,265)
Repayment of Debt	<u>-</u>	<u>(14,553)</u>
Net Cash Used by Financing Activities	<u>(14,946)</u>	<u>(27,818)</u>
<b>Net Increase in Cash for the Year</b>	<b>482,731</b>	<b>134,954</b>
CASH BALANCE, BEGINNING OF YEAR	<u>800,912</u>	<u>665,958</u>
CASH BALANCE, END OF YEAR	<u><u>\$ 1,283,643</u></u>	<u><u>\$ 800,912</u></u>
<b>Non-Cash Investing and Financing Activities</b>		
In-Kind Forgiveness of Debt (Note 7)	\$ -	\$ 816,962
Donated Vehicle	\$ -	\$ 4,000

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

HAWAII ISLAND HUMANE SOCIETY

Schedules of County Program Activity  
For the Years Ended June 30, 2014 and 2013

	2014			2013		
	Animal Control	S/N CAP	Total	Animal Control	S/N CAP	Total
Receipts:						
County of Hawai'i Contracted Funds	\$ 1,840,275	\$ 121,600	\$ 1,961,875	\$ 1,778,400	\$ 121,600	\$ 1,900,000
Total Receipts	1,840,275	121,600	1,961,875	1,778,400	121,600	1,900,000
Operating Expenses						
Salaries and Wages	1,038,262	-	1,038,262	970,680	-	970,680
Employee Benefits	213,920	-	213,920	176,555	-	176,555
Kennel Supplies, Food and Medicine	131,813	-	131,813	152,649	-	152,649
Payroll Taxes	110,127	-	110,127	110,817	-	110,817
Auto Expense	90,408	-	90,408	87,558	-	87,558
Surgery Programs and Supplies (Note 10)	(35,848)	123,954	88,106	-	63,977	63,977
Utilities	77,028	-	77,028	76,670	-	76,670
Insurance	59,775	-	59,775	36,408	-	36,408
Legal and Professional Services	33,632	-	33,632	25,235	-	25,235
Repairs and Maintenance	30,111	-	30,111	37,948	-	37,948
Animal Disposal	18,600	-	18,600	17,460	-	17,460
Office Supplies	16,705	-	16,705	16,897	-	16,897
Staff Meeting and Training	11,947	-	11,947	4,979	-	4,979
Animal Control Equipment	11,595	-	11,595	25,412	-	25,412
Network Expense	10,706	-	10,706	4,618	-	4,618
Office Equipment and Rentals	9,524	-	9,524	-	-	-
Uniforms	5,639	-	5,639	3,857	-	3,857
Travel and Mileage	4,387	-	4,387	3,022	-	3,022
Bank and Credit Card Fees	3,153	-	3,153	953	-	953
Postage and Freight	2,370	-	2,370	2,436	-	2,436
Dues, Licenses, Subs, Taxes	2,171	-	2,171	1,314	-	1,314
Printing	1,039	-	1,039	567	-	567
Advertising	658	-	658	1,144	-	1,144
Veterinary Care and Evidence Animals	467	-	467	-	-	-
Miscellaneous	126	-	126	-	-	-
Total Operating Expenses	1,848,315	123,954	1,972,269	1,757,179	63,977	1,821,156
Capital Lease Payments	7,473	-	7,473	6,632	-	6,632
Fixed Assets Purchased	-	-	-	-	-	-
Excess Revenue Over (Under) Receipts	\$ (15,513)	\$ (2,354)	\$ (17,867)	\$ 14,589	\$ 57,623	\$ 72,212

# HAWAII ISLAND HUMANE SOCIETY

Notes to the Financial Statements  
June 30, 2014 and 2013

## 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. 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.

*Cash and Cash Equivalents:* For the purpose of the statement of cash flows, the Organization considers all cash other highly liquid investments with initial maturities of three months or less to be cash equivalents.

*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, 2014 and 2013

### 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, 2014				
Assets	Total	Quoted Prices: Level 1	Significant Other Inputs: Level 2	Significant Non- Observable Inputs: Level 3
Certificate of Deposit	\$ 23,505	\$ 23,505	\$ -	\$ -
Annuity Contracts*	24,248	-	-	24,248
Total	\$ 47,753	\$ 23,505	\$ -	\$ 24,248

  

June 30, 2013				
Assets	Total	Quoted Prices: Level 1	Significant Other Inputs: Level 2	Significant Non- Observable Inputs: Level 3
Certificate of Deposit	\$ 23,281	\$ 23,281	\$ -	\$ -
Annuity Contracts*	30,714	-	-	30,714
Total	\$ 53,995	\$ 23,281	\$ -	\$ 30,714

\* - *Annuity Contracts*: Annuities 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 2014	Level 3 2013
Balance Beginning of Year	\$ 30,714	\$ 37,060
Donation of Annuities	-	-
Capital Distributions	(7,045)	(7,044)
Net Unrealized and Realized Losses	579	698
Balance as of Year End	\$ 24,248	\$ 30,714

# HAWAII ISLAND HUMANE SOCIETY

Notes to the Financial Statements  
June 30, 2014 and 2013

## 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.

*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.

## Note 3. CONCENTRATIONS

The Organization received approximately 60%, and 50% of its revenue from the County of Hawai'i as of June 30, 2014 and 2013, 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.

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 4. LEASES

In December 2010 a copier was acquired through a 60-month non-cancelable lease agreement requiring monthly payments. The new copier was capitalized at \$56,020 and is being depreciated over the life of the asset. In December of 2011 a second copier was leased from Ricoh for 48 months. It is being capitalized at \$13,002 and depreciated over the life of the asset. Current maturity of leases are as follows:

June 30, 2015	\$	16,843
June 30, 2016	\$	9,207

# HAWAII ISLAND HUMANE SOCIETY

Notes to the Financial Statements  
June 30, 2014 and 2013

## Note 5. NET ASSETS

The Hawaii Island Humane Society 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, 2014 and 2013, were \$178,445 and \$18,400, 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:

	2014	2013
Capital Campaign	\$ 378,027	\$ 309,074
Second Chance	150,463	105,061
Spay/Neuter	104,656	20,982
Equine Fund	56,601	46,459
Kona Kennels	55,450	25,450
Katie Fund	50,648	47,281
Kea'au Kennels	44,311	-
Michi Haga	20,756	20,756
Education	15,881	3,761
Waimea Kennels	1,229	1,204
Wish List	1,068	1,171
Mobile Adoption	-	1,500
Total	\$ 879,090	\$ 582,699

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, 2014 and 2013, 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 2014 and 2013 did not have a significant effect on the Organization's financial statements.



# HAWAII ISLAND HUMANE SOCIETY

Notes to the Financial Statements  
June 30, 2014 and 2013

## Note 6. FUNCTIONAL EXPENSES

The Hawaii Island Humane Society allocates expenses on a functional basis among three categories: direct program services, supporting services, and fundraising. Expenses are allocated to the program and support 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, 2014 and 2013 are \$5,000 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.

*Forgiveness of Debt:* In January, 2013 the lender of the Holualoa Land Note made an in-kind donation by way of cancellation and release of a Promissory Note. The balance of the Promissory Note and amount recognized as a donation at June 30, 2013 was \$816,962, see Note 14.

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

	<u>2014</u>	<u>2013</u>
Change in Net Assets	\$ 488,567	\$ 970,520
Adjustments to Reconcile:		
Depreciation	74,567	73,362
Donated Vehicle	-	(4,000)
Forgiveness of Debt Donation (Note 7)	-	(816,962)
Change in Accounts and Pledges Receivable	(24,887)	(60,167)
Change in Other Current Assets	34,990	159
Change in Deposits Other	(5,200)	3,407
Change in Accounts Payable	(22,710)	17,153
Change in Credit Cards	312	2,128
Change in Accrued Expenses	<u>(43,976)</u>	<u>(17,207)</u>
Net Cash Provided by Operating Activities	<u>\$ 501,663</u>	<u>\$ 168,393</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, 2014 and 2013, the retirement plan expenses totaled \$39,244 and \$37,286, respectively.

# HAWAII ISLAND HUMANE SOCIETY

Notes to the Financial Statements  
June 30, 2014 and 2013

## Note 10. SPAY/NEUTER PROGRAM

The Hawaii Island Humane Society 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 is has performed, and then bills the Hawaii Island Humane Society for payment of these services.

The veterinarian employed at the Hawaii Island Humane Society 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. As a result, an allocation of S/N expenses of \$35,848 related to the County of Hawaii CAP program expenses has been reclassified.

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 \$4,750 and \$14,545 are recorded as a liability for the years ending June 30, 2014 and 2013, respectively, which represent the value of unredeemed coupons.

At June 30, 2014 and 2013 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 \$29,670 for 2014 and \$24,677 for 2013. 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

Hawaii Island Humane Society 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 2014 and 2013.

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 2011.

# HAWAII ISLAND HUMANE SOCIETY

## Notes to the Financial Statements June 30, 2014 and 2013

### 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 has not been 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 Hawaii Island Humane Society 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. The land valued at \$452,646, and buildings valued at \$377,354, were secured with a \$832,562 Promissory Note from a private lender at 5% per annum. In January 2013, the lender forgave the debt, see Note 7.

### 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 \$102,633 for the years ending June 30, 2014 and 2013.

### NOTE 16. PLEDGE RECEIVABLE

The Organization began a fundraising campaign for the improvement of its building. 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. Pledge receivable consists of the following as of June 30, 2014:

Gross Pledge Receivable	\$	83,600
Allowance for Doubtful Accounts		-
Net Pledge Receivable	<u>\$</u>	<u>83,600</u>
Amounts due in:		
Less than one year	\$	33,600
One to three years	\$	50,000

### NOTE 17. RELATED PARTY

A Board of Director member is also 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, 2014 and 2013 were \$7,884 and \$5,771, respectively.

# HAWAII ISLAND HUMANE SOCIETY

Notes to the Financial Statements  
June 30, 2014 and 2013

## NOTE 18. SUBSEQUENT EVENTS

In preparing these financial statements, Management has evaluated events and transactions for potential recognition or disclosure through September 25, 2014, the date the financial statements were available for use.

## NOTE 19. RECLASSIFICATION

Certain reclassifications have been made to the prior year's financial statements to conform to the current year presentation. These reclassifications had no effect on previously reported results of operations and net assets.

## Note 20. 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, 2014 and 2013 were \$17,636 and \$19,984, respectively.