

HAWAII ISLAND HUMANE SOCIETY
(A Hawaii Nonprofit Corporation)

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

FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

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, 2020 and 2019, and the related statements of activities and changes 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, 2020 and 2019, 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 8 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 and Management Group

Hilo, Hawai'i
December 21, 2020

HAWAII ISLAND HUMANE SOCIETY

Statements of Financial Position

June 30, 2020 and 2019

	ASSETS	
	2020	2019
CURRENT ASSETS		
Cash and Cash Equivalents (Note 2)	\$ 1,952,707	\$ 1,580,364
Other Current Assets		
Accounts Receivable	6,692	1,225
Pledge Receivable, net of Allowance (Note 16)	6,000	6,000
Prepaid Expense	1,652	1,652
Retail Inventory (Note 2)	1,840	12,140
Total Other Current Assets	<u>16,184</u>	<u>21,017</u>
Total Current Assets	<u>1,968,891</u>	<u>1,601,381</u>
PROPERTY AND EQUIPMENT (Note 2)		
Kea'au Land	100,000	100,000
Holualoa Land (Note 14)	452,646	452,646
Buildings	871,502	871,502
Vehicles	455,473	447,995
Equipment - Office	69,689	69,689
Operating Room Equipment	54,292	54,292
Leasehold Improvements (Note 15)	162,945	162,945
Land Improvement - Dog Park	1,184,222	1,184,222
Construction In Progress (Note 14)	8,431,341	3,745,688
Miscellaneous Assets	21,954	21,954
Total Capitalized Assets	<u>11,804,064</u>	<u>7,110,933</u>
Accumulated Depreciation	<u>(962,800)</u>	<u>(839,797)</u>
Net Property and Equipment	<u>10,841,264</u>	<u>6,271,136</u>
OTHER ASSETS		
Investments (Note 4)	24,672	24,400
Deposits - Other	500	500
Total Other Assets	<u>25,172</u>	<u>24,900</u>
TOTAL ASSETS	<u>\$ 12,835,327</u>	<u>\$ 7,897,417</u>

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

HAWAII ISLAND HUMANE SOCIETY

Statements of Financial Position

June 30, 2020 and 2019

LIABILITIES AND NET ASSETS

	<u>2020</u>	<u>2019</u>
CURRENT LIABILITIES		
Accounts Payable	\$ 308,637	\$ 497,468
S/N Coupon and Other County Payables (Note 12)	-	3,969
Credit Card Payable	6,125	8,533
Total Current Liabilities	<u>314,762</u>	<u>509,970</u>
OTHER CURRENT LIABILITIES		
Accrued Wages	88,818	54,516
Accrued Vacation Payable	34,648	18,120
Accrued Payroll Taxes and Benefits	512	21,561
Payroll Protection Program Loan (Note 23)	343,000	-
Total Other Current Liabilities	<u>466,978</u>	<u>94,197</u>
TOTAL CURRENT LIABILITIES	781,740	604,167
NET ASSETS (Note 2)		
Net Assets Without Donor Restriction	10,856,279	6,433,013
Board Designated	40,698	77,156
Net Assets With Donor Restriction	1,156,610	783,081
Total Net Assets	<u>12,053,587</u>	<u>7,293,250</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 12,835,327</u>	<u>\$ 7,897,417</u>

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

HAWAII ISLAND HUMANE SOCIETY

Statements of Activities and Changes in Net Assets
For the Years Ended June 30, 2020 and 2019

	Without Donor Restriction	With Donor Restriction		Total 2020	Without Donor Restriction	With Donor Restriction		Total 2019
		Temporarily	Permanently			Temporarily	Permanently	
PUBLIC SUPPORT AND REVENUE								
Donations	\$ 349,852	\$ 5,287,773	\$ -	\$ 5,637,625	\$ 13,266	\$ 805,534	\$ -	\$ 818,800
County of Hawaii'i	2,026,444	-	-	2,026,444	2,081,625	-	-	2,081,625
Adoptions	164,256	-	-	164,256	148,756	-	-	148,756
Fundraising	71,813	-	-	71,813	279,887	-	-	279,887
Grants	24,650	40,000	-	64,650	5,000	112,483	-	117,483
Donated Rent (Note 7)	25,200	-	-	25,200	25,200	-	-	25,200
Humane Shelter Services	15,017	-	-	15,017	15,485	-	-	15,485
Sales (net)	13,794	-	-	13,794	15,262	-	-	15,262
Miscellaneous Revenue	13,598	-	-	13,598	16,273	-	-	16,273
S/N CAP Coupon Sales (Note 12)	275	-	-	275	922	-	-	922
Donated Services (Note 7)	-	-	-	-	40,606	-	-	40,606
Gain on Sale of Asset	-	-	-	-	500	-	-	500
Net Assets Released from Restrictions	4,954,244	(4,954,244)	-	-	2,652,131	(2,652,131)	-	-
Total Public Support and Revenue	7,659,143	373,529	-	8,032,672	5,294,913	(1,734,114)	-	3,560,799
EXPENSES								
Program Expenses	2,901,901	-	-	2,901,901	3,080,998	-	-	3,080,998
Management and General	305,571	-	-	305,571	318,971	-	-	318,971
Fundraising Expenses	64,864	-	-	64,864	74,130	-	-	74,130
Total Expenses	3,272,335	-	-	3,272,335	3,474,099	-	-	3,474,099
CHANGES IN NET ASSETS	\$ 4,386,808	\$ 373,529	\$ -	\$ 4,760,337	\$ 1,820,814	\$ (1,734,114)	\$ -	\$ 86,700
NET ASSETS, BEGINNING OF YEAR	6,510,169	760,707	22,374	7,293,250	4,689,355	2,494,821	22,374	7,206,550
NET ASSETS, END OF YEAR	\$ 10,896,977	\$ 1,134,236	\$ 22,374	\$ 12,053,587	\$ 6,510,169	\$ 760,707	\$ 22,374	\$ 7,293,250

The accompanying notes are an integral part of these financial statements.
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HAWAII ISLAND HUMANE SOCIETY

Statements of Functional Expenses
For the Years Ended June 30, 2020 and 2019

	Supporting Services			Total 2020	Supporting Services			Total 2019
	Program Services	Management and General	Fundraising		Program Services	Management and General	Fundraising	
Salaries and Wages	\$ 1,271,439	\$ 142,858	\$ 14,286	\$ 1,428,583	\$ 1,205,947	\$ 135,500	\$ 13,550	\$ 1,354,997
Kennel Supplies, Food and Medicine	331,327	-	-	331,327	361,333	-	-	361,333
Employee Benefits	209,303	23,517	2,352	235,172	251,226	28,228	2,823	282,276
Payroll Taxes	143,513	16,125	1,613	161,251	116,468	13,086	1,309	130,863
Legal and Professional Services	108,310	38,055	-	146,365	137,115	48,176	-	185,291
Surgery Programs and Supplies	116,449	10,818	-	127,267	147,662	13,717	-	161,379
Depreciation	123,003	-	-	123,003	110,641	-	-	110,641
Utilities	115,446	7,369	-	122,815	112,319	7,169	-	119,488
Insurance	113,301	7,232	-	120,533	86,738	5,536	-	92,274
Repairs and Maintenance	62,477	33,642	-	96,119	63,642	34,269	-	97,910
Auto Expense	66,742	-	-	66,742	107,959	-	-	107,959
Office Supplies	36,676	9,169	-	45,845	38,714	9,679	-	48,393
Advertising (Note 2)	41,776	-	-	41,776	40,096	-	-	40,096
Fundraising Expense	-	-	40,754	40,754	-	-	47,508	47,508
Rent, including In-kind Rent (Note 7)	31,529	1,250	-	32,779	31,279	1,250	-	32,529
Adoption Expense	28,885	-	-	28,885	58,984	-	-	58,984
Network Expense	17,152	11,435	-	28,587	15,613	10,409	-	26,022
Veterinary Care and Evidence Animals	24,100	-	-	24,100	34,897	-	-	34,897
Animal Disposal	19,393	-	-	19,393	26,911	-	-	26,911
General Excise Tax and Other Taxes	9,573	-	3,363	12,936	11,332	-	3,982	15,314
Bank and Credit Card Fees	8,030	-	2,008	10,038	12,556	-	3,139	15,695
Meals and Travel	5,744	1,094	-	6,838	12,333	2,349	-	14,682
Other Expenses	4,151	911	-	5,061	9,924	2,178	-	12,101
Animal Control Equipment	4,325	-	-	4,325	5,517	-	-	5,517
Uniforms	3,033	-	-	3,033	8,663	-	-	8,663
Printing	2,811	-	148	2,959	17,014	-	895	17,909
Staff Meeting and Training	1,737	675	-	2,412	7,875	3,063	-	10,938
Postage and Freight	796	758	341	1,895	2,158	2,056	925	5,139
Dues, Licenses, Subscriptions	879	663	-	1,542	3,059	2,308	-	5,367
In-Kind - Service (Note 7)	-	-	-	-	40,606	-	-	40,606
Humane Education	-	-	-	-	2,417	-	-	2,417
TOTAL EXPENSES	\$ 2,901,901	\$ 305,571	\$ 64,864	\$ 3,272,335	\$ 3,080,998	\$ 318,971	\$ 74,130	\$ 3,474,099

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, 2020 and 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Hawai'i County Funding	\$ 2,026,444	\$ 2,081,625
Retail Sales and Services to Public	252,250	318,521
Fundraising	71,813	279,887
S/N CAP Coupon Sales	275	922
Foundations and Other Donations	5,637,625	867,300
Interest Income	12,587	13,306
Other Cash Received	1,283	1,473
Cash Paid to Employees and Vendors	<u>(3,279,531)</u>	<u>(2,919,984)</u>
Net Cash Provided by Operating Activities (Note 19)	4,722,746	643,050
CASH FLOWS FROM INVESTING ACTIVITIES		
(Purchases) Proceeds from Investments	(272)	1,494
Proceeds from Asset Sale	-	500
Cash Used to Purchase Property and Equipment	38,965	(39,108)
Cash Used for Construction in Process	<u>(4,732,096)</u>	<u>(2,193,707)</u>
Net Cash Used by Investing Activities	(4,693,403)	(2,230,821)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Payroll Protection Program Loan	<u>343,000</u>	<u>-</u>
Net Cash Provided by Financing Activities	<u>343,000</u>	<u>-</u>
Net Increase (Decrease) in Cash, Cash Equivalents, and Restricted Cash	372,343	(1,587,771)
CASH BALANCE, CASH EQUIVALENTS BEGINNING OF YEAR	<u>1,580,364</u>	<u>3,168,135</u>
CASH BALANCE, CASH EQUIVALENTS END OF YEAR	<u><u>\$ 1,952,707</u></u>	<u><u>\$ 1,580,364</u></u>
Supplemental Non-Cash Investing Activities		
Construction in Progress in Accounts Payable	\$ 208,584	\$ 328,209

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, 2020 and 2019

	2020			2019		
	Animal Control	S/N CAP	Total	Animal Control	S/N CAP	Total
Receipts:						
County of Hawai'i Contracted Funds	\$ 1,860,900	\$ 165,544	\$ 2,026,444	\$ 1,860,900	\$ 220,725	\$ 2,081,625
Gain on Sale of Asset	-	-	-	500	-	500
Total Receipts	1,860,900	165,544	2,026,444	1,861,400	220,725	2,082,125
Operating Expenses						
Salaries and Wages	992,258	-	992,258	889,926	-	889,926
Kennel Supplies, Food and Medicine	201,354	-	201,354	209,199	-	209,199
Employee Benefits	166,189	-	166,189	176,123	-	176,123
Payroll Taxes	152,648	-	152,648	99,642	-	99,642
Surgery Programs and Supplies (Note 11)	-	135,452	135,452	-	195,831	195,831
Utilities	85,548	-	85,548	102,388	-	102,388
Insurance	73,489	-	73,489	60,885	-	60,885
Auto Expense	64,189	-	64,189	95,380	-	95,380
Outside Services/Contract Labor	57,126	-	57,126	47,967	-	47,967
Repairs and Maintenance	43,511	-	43,511	43,520	-	43,520
Animal Disposal	21,371	-	21,371	26,911	-	26,911
Legal and Professional Services	20,735	-	20,735	50,757	-	50,757
Advertising	19,664	-	19,664	19,326	-	19,326
Network Expense	10,653	-	10,653	10,809	-	10,809
Office Equipment and Rentals	8,822	-	8,822	10,438	-	10,438
Office Supplies	7,906	-	7,906	11,235	-	11,235
Travel and Mileage	4,175	-	4,175	6,428	-	6,428
Uniforms	2,469	-	2,469	7,752	-	7,752
Bank and Credit Card Fees	2,440	-	2,440	2,667	-	2,667
Staff Meeting and Training	2,130	-	2,130	5,071	-	5,071
Postage and Freight	1,013	-	1,013	786	-	786
Rent	886	-	886	-	-	-
Animal Control Equipment	875	-	875	5,056	-	5,056
Veterinary Care and Evidence Animals	272	-	272	54	-	54
Dues, Licenses, Subs, Taxes	255	-	255	1,884	-	1,884
Miscellaneous	174	-	174	-	-	-
Total Operating Expenses	1,940,151	135,452	2,075,603	1,884,204	195,831	2,080,035
Capital Lease Payments	-	-	-	-	-	-
Fixed Assets Purchased	-	-	-	-	-	-
Excess Receipts Over (Under) Disbursements	\$ (79,251)	\$ 30,092	\$ (49,159)	\$ (22,804)	\$ 24,894	\$ 2,090

HAWAII ISLAND HUMANE SOCIETY

Notes to the Financial Statements
June 30, 2020 and 2019

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 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 and donations revenue is recognized when the gift is received. For grants, revenue is recognized as the applicable requirements are fulfilled. Contributions received are recorded either "With Donor Restrictions" or "Without Donor Restrictions". Grants and other contributions of cash are reported as having donor restrictions if they are received with donor stipulations that limit the use of the donated assets. Unconditional promises to give within the next year are reflected as current promises to give and are recorded at their net realizable value.

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, 2020 and 2019, were \$333 and \$4,804, 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.

Advertising: The Organization's advertising expenses are related to fundraising activities and program services. There was a total of \$41,776 and \$40,096 in advertising costs for the years ended June 30, 2020 and 2019, respectively. It is considered a direct expense not incurring measurable future benefit. Advertising costs are expensed as incurred.

HAWAII ISLAND HUMANE SOCIETY

Notes to the Financial Statements June 30, 2020 and 2019

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

Cash and Cash Equivalents 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>2020</u>	<u>2019</u>
Fully Insured Deposits	\$ 853,101	\$ 861,252
Uninsured and Uncollateralized	<u>1,099,606</u>	<u>719,112</u>
	<u>\$ 1,952,707</u>	<u>\$ 1,580,364</u>

Net Assets: Net assets, revenues, gains and losses are classified based on the existence of or absence of donor- or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net assets without donor restrictions: 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, 2020 and 2019, were \$40,698 and \$77,156, respectively.

Net assets with donor restrictions: Net assets with donor restrictions 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, 2020 and 2019, 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 2020 and 2019, did not have a significant effect on the Organization's financial statements.

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:

HAWAII ISLAND HUMANE SOCIETY

Notes to the Financial Statements
June 30, 2020 and 2019

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

	2020	2019
Capital Campaign	\$ 633,678	\$ 203,820
Mobile Spay/Neuter	133,900	161,351
Kea'au Kennels	89,766	60,333
Second Chance	60,522	137,834
Katie Fund	47,649	47,624
Life Saving	39,986	-
Spay/Neuter	36,222	23,959
Lava Flow	27,448	27,448
Equine Fund	19,656	21,565
Michi Haga	19,019	19,479
COVID-19	16,006	-
Education	5,362	5,725
Waimea Kennels	4,482	3,196
Kona Kennels	540	540
Second Change/Mainland Transfer	-	-
Transfer Program	-	47,833
Total	\$ 1,134,236	\$ 760,707

Note 3. CONCENTRATIONS

The Organization received approximately 25% and 58% of its revenue from the County of Hawai'i as of June 30, 2020 and 2019, 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. See additional information in Note 18.

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.

HAWAII ISLAND HUMANE SOCIETY

Notes to the Financial Statements
June 30, 2020 and 2019

Note 4. INVESTMENTS - continued

- 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.

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.

<u>Assets</u>	<u>Total 2020</u>	<u>Quoted Prices: Level 1</u>	<u>Significant Other Inputs: Level 2</u>	<u>Significant Non- Observable Inputs: Level 3</u>
Certificate of Deposit	\$ 24,672	\$ 24,672	\$ -	\$ -
Total	\$ 24,672	\$ 24,672	\$ -	\$ -

<u>Assets</u>	<u>Total 2019</u>	<u>Quoted Prices: Level 1</u>	<u>Significant Other Inputs: Level 2</u>	<u>Significant Non- Observable Inputs: Level 3</u>
Certificate of Deposit	\$ 24,400	\$ 24,400	\$ -	\$ -
Total	\$ 24,400	\$ 24,400	\$ -	\$ -

HAWAII ISLAND HUMANE SOCIETY

Notes to the Financial Statements June 30, 2020 and 2019

Note 5. LEASES

The Organization has a cancellable lease to rent space from Parker Ranch for the Waimea facilities. The future minimum lease payment is \$3,000 for the year ending June 30, 2021.

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

2021	\$ 10,192
2022	853
Total	<u>\$ 11,045</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, 2020 and 2019 are \$-0- and \$40,606, 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 September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 985): Presentation and disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, effective for annual periods beginning after June 15, 2021 with early application permitted. The provisions are effective for the Organization's fiscal year ending June 30, 2022. Management is currently evaluating the impact that the adoption of these provisions will have on the financial statements.

In-kind Rent: The building and land on which the Kona shelter was located belonged to the County of Hawai'i. The County provided 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. See Note 14.

HAWAII ISLAND HUMANE SOCIETY

Notes to the Financial Statements
June 30, 2020 and 2019

Note 8. NEW ACCOUNTING PRONOUNCEMENTS

The Organization has adopted Accounting Standards Update (ASU) No. 2014-09 - *Revenue from Contracts with Customers (Topic 606)*, as amended, as management believes the standard improves the usefulness and understandability of the Organization's financial reporting. Analysis of various provisions of this standard resulted in no significant changes in the way the Organization recognizes revenue, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis. The presentation and disclosures of revenue have been enhanced in accordance with the standard.

In June 2018, FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This standard assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. The Organization has implemented the provisions of ASU 2018-08 applicable to contributions received in the accompanying financial statements under a modified prospective basis. Accordingly, there is no effect on net assets in connection with the implementation of ASU 2018-08.

During the year of 2020, the Organization has adopted ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. Management believes the new accounting standard has no effect on its financial statements.

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, 2020 and 2019, the retirement plan expenses totaled \$26,024 and \$35,354, 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, 2020	\$ 1,952,707
Less those unavailable to general expenditures:	
Donor Restricted Current Net Assets	<u>(1,134,236)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 818,471</u>

HAWAII ISLAND HUMANE SOCIETY

Notes to the Financial Statements June 30, 2020 and 2019

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.

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 provided coupons free of charge under the County of Hawai'i S/N program. See Note 12.

Note 12. S/N COUPON LIABILITY

Due to the onset of COVID-19, no S/N coupons, which are redeemable for 90 days, were issued after March 2020, therefore there was no associated liability to recognize for these surgeries at June 30, 2020.

The coupons sold through the S/N CAP program are redeemed by the patron when veterinary services are performed. Estimated amount of \$3,969 was recorded as a liability for the year ending June 30, 2019.

At June 30, 2019, 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 at June 30, 2019. No funds were received when these coupons were issued and a liability had not been recorded as the surgeries were 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 2020 and 2019.

HAWAII ISLAND HUMANE SOCIETY

Notes to the Financial Statements
June 30, 2020 and 2019

Note 13. INCOME TAXES - continued

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 2017.

Note 14. HOLUALOA LAND AND BUILDING

In April 2011, the Organization purchased a 12-acre parcel with three existing buildings that required renovation prior to occupancy. Depreciation will not be taken while construction is in process. At June 30, 2020, construction in progress is \$8,431,341. The projects are expected to be completed by December 2020, at which time the Cat Barn, Dog Dorms 1-3, Welcome Center, and Humane Education Building will be placed into service.

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, 2020 and 2019.

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:

	2020	2019
Gross Pledge Receivable	\$ 6,000	\$ 6,000
Present Value Allowance	-	-
Net Pledge Receivable	\$ 6,000	\$ 6,000
Amounts due in:		
Less than one year	\$ 6,000	\$ -
One to three years	\$ -	\$ 6,000

HAWAII ISLAND HUMANE SOCIETY

Notes to the Financial Statements
June 30, 2020 and 2019

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, 2020 and 2019, were \$7,349 and \$10,131, respectively.

Note 18. SUBSEQUENT EVENTS

During the year, there was the outbreak of COVID-19 pandemic. Subsequent to year end, at the time these financial statements were available to be issued, the situation remained very volatile and the full effect of the pandemic on operations could not be determined.

The Management and the Board of Directors of the Organization determined not to apply to renew the County of Hawai'i contract (see Note 3) for Animal Control after the last contract extension going through July 31, 2020. Management is pursuing other funding sources to mitigate the loss of revenue.

In preparing these financial statements, Management has evaluated events and transactions for potential recognition or disclosure through December 21, 2020, the date the financial statements were available for use.

Note 19. RECONCILIATION OF CHANGES IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES

	<u>2020</u>	<u>2019</u>
Change in Net Assets	\$ 4,760,337	\$ 86,700
Adjustments to Reconcile:		
Add: Depreciation	123,003	110,641
Loss/(Gain) on Disposal	-	(500)
Change in Accounts Receivable	(5,467)	65,231
Change in Other Current Assets	10,300	10,550
Change in Deposits Other	-	308
Change in Accounts Payable	(192,800)	368,677
Change in Credit Card Payable	(2,408)	5,922
Change in Accrued Liabilities	29,781	(4,479)
Net Cash Provided by Operating Activities	<u>\$ 4,722,746</u>	<u>\$ 643,050</u>

HAWAII ISLAND HUMANE SOCIETY

Notes to the Financial Statements
June 30, 2020 and 2019

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, 2020 (as amended in November 2019 by ASU 2019-10), but permits early adoption, and mandates a modified retrospective transition method. The provisions are effective for the Organization's fiscal year ending June 30, 2022. 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.

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.

Note 22. RECLASSIFICATION

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

Note 23. PAYROLL PROTECTION PROGRAM LOAN

On April 17, 2020, the Organization received loan proceeds in the amount of \$343,000 under the Paycheck Protection Program ("PPP"). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The loans and accrued interest are forgivable as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The amount of loan forgiveness can be reduced if the borrower terminates employees or reduces salaries over the period.

The unforgiven portion of the PPP loan is payable over two years at an interest rate of 1%, with a deferral of payments for the first six months. The Organization intends to use the proceeds for purposes consistent with the PPP and therefore plans to meet the conditions for forgiveness of the loan. Until the bank has forgiven the indebtedness in whole or in part, the Organization will maintain the loan balance on the statement of net assets accordingly.