

**HAWAII ISLAND HUMANE SOCIETY**  
(A Hawai'i Nonprofit Corporation)

AUDITED FINANCIAL STATEMENTS  
(With Independent Auditors' Report)

FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

# HAWAII ISLAND HUMANE SOCIETY

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## INDEPENDENT AUDITORS' REPORT

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

### **Opinion**

We have audited the accompanying financial statements of Hawaii Island Humane Society (a Hawai'i nonprofit organization), which comprise the statements of financial position as of June 30, 2023 and 2022, 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.

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, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Hawaii Island Humane Society and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Emphasis of Matters**

As discussed in Note 2 to the financial statements, during the year ended June 30, 2023, the Organization adopted Financial Accounting Standards Board's Accounting Standards Codification 2016-02 Topic 842, *Leases*. Our opinion is not modified with respect to this matter.

As discussed in Note 15 to the financial statements, the Organization has evaluated whether a decrease in operating cash flows raise substantial doubt about its ability to continue as a going concern for a reasonable period of time. Management's plans include reducing expenditures and pursuing donations in order to fund its operations. Our opinion is not modified with respect to this matter.

### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Hawaii Island Humane Society's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.


### *Auditors' Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Hawaii Island Humane Society's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Hawaii Island Humane Society's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.



Kailua-Kona, Hawai'i  
March 5, 2024

# HAWAII ISLAND HUMANE SOCIETY

## Statements of Financial Position As of June 30, 2023 and 2022

<b>ASSETS</b>		
	2023	2022
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents (Note 2)	\$ 1,110,437	\$ 2,376,239
Certificates of Deposit (Note 2)	702,100	900,000
Accounts Receivable	63,865	11,709
Pledges Receivable (Note 2)	74,991	1,500,000
Employee Retention Credits Receivable (Note 6)	134,745	-
Prepaid Expenses	7,256	318
Retail Inventory (Note 2)	17,181	20,215
Total Current Assets	2,110,575	4,808,481
LAND, PROPERTY AND EQUIPMENT, NET (Note 2)	16,498,902	13,813,181
<b>OTHER NON-CURRENT ASSETS</b>		
Finance Lease Right-Of-Use Assets, Net (Notes 2 and 5)	24,545	-
Investments (Notes 2 and 4)	22,490	11,646
Total Other Non-Current Assets	47,035	11,646
<b>TOTAL ASSETS</b>	<b>\$ 18,656,512</b>	<b>\$ 18,633,308</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable	\$ 77,441	\$ 50,963
Construction Payables	187,346	399,111
Accrued Wages and Taxes	24,464	56,721
Accrued Vacation Payable	17,845	17,845
Deferred Fundraising Revenue (Note 2)	34,253	-
Current Portion of Finance Lease Liabilities (Notes 2 and 5)	11,380	-
Total Current Liabilities	352,729	524,640
NON-CURRENT PORTION OF FINANCE LEASE LIABILITIES (Notes 2 and 5)	13,273	-
<b>TOTAL LIABILITIES</b>	366,002	524,640
<b>NET ASSETS (Note 2)</b>		
Net Assets Without Donor Restrictions - Board Designated	90,698	990,698
Net Assets Without Donor Restrictions	16,851,136	13,555,580
Net Assets With Donor Restrictions	1,348,676	3,562,390
Total Net Assets	18,290,510	18,108,668
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 18,656,512</b>	<b>\$ 18,633,308</b>

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, 2023 and 2022

	2023			2022		
	Without Donor Restrictions	With Donor Restrictions		Without Donor Restrictions	With Donor Restrictions	
		Temporarily	Permanently		Temporarily	Permanently
<b>PUBLIC SUPPORT AND REVENUE</b>						
Donations	\$ 219,425	\$ 992,855	\$ -	\$ 2,010,407	\$ 4,868,867	\$ -
Fundraising	677,124	-	-	398,936	50,000	-
Public and Private Grants	318,679	20,000	-	2,500	44,000	-
Donated Fundraising Gifts (Note 7)	113,713	-	-	106,560	-	-
Adoption Fees	96,411	-	-	98,061	-	-
Veterinary Services	63,114	-	-	-	-	-
Merchandise, Service and Microchipping Sales	52,207	-	-	42,808	-	-
Donated Services (Note 7)	20,000	-	-	-	-	-
Miscellaneous Revenue	16,855	-	-	25,693	-	-
Donated Fundraising Services (Note 7)	15,364	-	-	-	-	-
Donation of Vehicle (Note 7)	-	-	-	35,000	-	-
Employee Retention Credits (Note 6)	498,701	-	-	-	-	-
Interest and Dividends	14,100	-	-	453	-	-
Unrealized Gain (Loss) on Investments (Note 2)	5,222	-	-	(5,016)	-	-
Paycheck Protection Program Loan Forgiveness (Note 12)	-	-	-	353,632	-	-
Net Assets Released from Restrictions	3,226,569	(3,226,569)	-	2,436,126	(2,436,126)	-
<b>Total Public Support and Revenue</b>	<b>5,337,484</b>	<b>(2,213,714)</b>	<b>-</b>	<b>5,505,160</b>	<b>2,526,741</b>	<b>-</b>
<b>EXPENSES</b>						
Program Expenses	2,374,121	-	-	2,076,518	-	-
Management and General	269,654	-	-	210,177	-	-
Fundraising Expenses	298,153	-	-	172,032	-	-
<b>Total Expenses</b>	<b>2,941,928</b>	<b>-</b>	<b>-</b>	<b>2,458,727</b>	<b>-</b>	<b>-</b>
<b>CHANGES IN NET ASSETS</b>	<b>\$ 2,395,556</b>	<b>\$ (2,213,714)</b>	<b>\$ -</b>	<b>\$ 3,046,433</b>	<b>\$ 2,526,741</b>	<b>\$ -</b>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<b>14,546,278</b>	<b>3,540,016</b>	<b>22,374</b>	<b>11,499,845</b>	<b>1,013,275</b>	<b>22,374</b>
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 16,941,834</b>	<b>\$ 1,326,302</b>	<b>\$ 22,374</b>	<b>\$ 14,546,278</b>	<b>\$ 3,540,016</b>	<b>\$ 22,374</b>

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

## HAWAII ISLAND HUMANE SOCIETY

### Statements of Functional Expenses For the Years Ended June 30, 2023 and 2022

	Supporting Services				Supporting Services			
	Program Services	Management and General	Fundraising	Total 2023	Program Services	Management and General	Fundraising	Total 2022
Salaries and Wages	\$ 1,026,094	\$ 115,291	\$ 11,529	\$ 1,152,914	\$ 767,286	\$ 86,212	\$ 8,621	\$ 862,119
Employee Benefits	152,608	17,147	1,715	171,470	145,423	16,340	1,634	163,397
Payroll Taxes	123,340	13,858	1,386	138,584	86,838	9,757	976	97,571
Total Salaries, Wages and Related Expenses	1,302,042	146,296	14,630	1,462,968	999,547	112,309	11,231	1,123,087
Depreciation and Amortization	363,856	-	-	363,856	344,277	-	-	344,277
Kennel Supplies, Food and Medicine	198,704	-	-	198,704	165,211	-	-	165,211
Legal and Professional Services	65,351	55,488	31,460	152,299	79,280	27,855	-	107,135
In-Kind - Fundraising Gifts (Note 7)	-	-	113,713	113,713	-	-	106,560	106,560
Venue Rental, Event Hosting, Catering and Other	-	-	98,375	98,375	-	-	51,182	51,182
Utilities	87,406	5,579	-	92,985	87,500	5,585	-	93,085
Insurance	73,549	4,695	-	78,244	64,136	4,094	-	68,230
Repairs and Maintenance	50,582	27,237	-	77,819	50,051	26,950	-	77,001
Advertising and Marketing (Note 2)	14,254	-	33,526	47,780	13,533	-	-	13,533
Surgery Programs and Supplies	37,159	3,452	-	40,611	40,148	3,730	-	43,878
Adoption Expense	38,670	-	-	38,670	46,715	-	-	46,715
Office Supplies	23,859	5,965	-	29,824	27,643	6,911	-	34,554
Bank and Credit Card Fees	27,064	-	552	27,616	26,796	-	547	27,343
Cost of Goods Sold (Note 2)	25,470	-	-	25,470	41,034	-	-	41,034
Information Technology Expense	15,094	10,063	-	25,157	15,839	10,560	-	26,399
Meals and Travel	13,060	2,488	-	15,548	11,975	2,281	-	14,256
Staff Meeting and Training	10,104	3,929	-	14,033	16,483	6,410	-	22,893
General Excise Tax and Other Taxes	6,402	-	2,250	8,652	6,532	-	2,295	8,827
Auto Expense	8,276	-	-	8,276	14,229	-	-	14,229
Other Expenses	5,584	1,226	-	6,810	4,078	895	-	4,973
Dues, Licenses, Subscriptions	3,608	2,721	-	6,329	3,048	2,299	-	5,347
Printing	1,489	-	3,415	4,904	1,580	-	83	1,663
Postage and Freight	540	515	232	1,287	313	298	134	745
Finance Lease Interest	1,003	-	-	1,003	-	-	-	-
Educational	825	-	-	825	-	-	-	-
Animal Control Equipment	170	-	-	170	1,348	-	-	1,348
Loss on Asset Disposal	-	-	-	-	14,333	-	-	14,333
Veterinary Care and Evidence Animals	-	-	-	-	889	-	-	889
<b>TOTAL EXPENSES</b>	<b>\$ 2,374,121</b>	<b>\$ 269,654</b>	<b>\$ 298,153</b>	<b>\$ 2,941,928</b>	<b>\$ 2,076,518</b>	<b>\$ 210,177</b>	<b>\$ 172,032</b>	<b>\$ 2,458,727</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, 2023 and 2022

	2023	2022
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Donations	\$ 264,278	\$ 1,715,735
Fundraising	711,377	448,936
Public and Private Grants	286,523	46,500
Adoption Fees	96,411	98,061
Veterinary Services	63,114	-
Merchandise, Service and Microchipping Sales	52,207	42,808
Miscellaneous Revenue	16,855	25,693
Employee Retention Credits	363,956	-
Interest and Dividends	14,100	453
Cash Paid to Employees and Vendors	(2,433,456)	(1,989,332)
Net Cash (Used) Provided by Operating Activities (Note 10)	(564,635)	388,854
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net (Purchases) Proceeds of Investments	(5,819)	(11,646)
Net Proceeds (Purchases) of Certificates of Deposit	197,900	(900,000)
Proceeds from Sale of Property and Equipment	-	20,000
Cash Used for Purchases of Property and Equipment	(36,952)	(42,995)
Cash Used for Construction in Process	(3,214,422)	(2,226,805)
Net Cash Used by Investing Activities	(3,059,293)	(3,161,446)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds From Contributions Restricted for Long-Term Purposes	2,373,011	3,655,820
Reduction of Finance Lease Liabilities	(14,885)	-
Net Cash Provided by Financing Activities	2,358,126	3,655,820
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>	<b>(1,265,802)</b>	<b>883,228</b>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,376,239	1,493,011
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 1,110,437	\$ 2,376,239
 <b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Lease Assets Obtained In Exchange for Lease Obligations:		
Finance Leases (Note 2)	\$ 34,512	\$ -
 <b>NON-CASH INVESTING AND FINANCING ACTIVITIES</b>		
Donation of Vehicle	\$ -	\$ 35,000
Contribution of Marketable Securities	\$ -	\$ 13,814
Construction Payables	\$ 187,346	\$ 395,758
Paycheck Protection Program Loan Forgiveness (Note 12)	\$ -	\$ 353,632

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



# HAWAII ISLAND HUMANE SOCIETY

## Notes to the Financial Statements For the Years Ended June 30, 2023 and 2022

### Note 1. ORGANIZATION

The Hawaii Island Humane Society is a nonprofit animal welfare organization (the Organization) offering lifesaving programs and community outreach services, incorporated under the laws of the State of Hawai‘i on May 10, 1962. The mission of Hawaii Island Humane Society is to prevent cruelty to animals, eliminate pet overpopulation, and enhance the bond between humans and animals. Our principal services include lost and found, spay and neuter, community veterinary care, pet rehoming, a community food pantry, microchipping, dog licensing, and end of life services.

The Organization maintains two island locations: the new Animal Community Center (ACC) in Holualoa-Kona having opened in September 2020, and a shelter in Kea‘au, Hawai‘i. The Organization is currently in Phase III expansion plan for its 12-acre ACC campus, consisting of the construction of a 10,000 square foot veterinary hospital to include an intake lane for incoming animals, several surgical spaces, isolation units and diagnostic equipment.

### 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 net realizable value.

*Cash and Cash Equivalents:* For the purpose of the statement of cash flows, the Organization considers all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents. 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>2023</u>	<u>2022</u>
Fully Insured Deposits	\$ 308,940	\$ 640,212
Uninsured and Uncollateralized	<u>801,497</u>	<u>1,736,027</u>
	<u>\$ 1,110,437</u>	<u>\$ 2,376,239</u>

*Certificates of Deposit* - As of June 30, 2023 and 2022, the Organization had \$702,100 and \$900,000, respectively, invested in certificates of deposit with original maturities of 12 months. Certificates of Deposit are recorded at cost which approximates fair value. Interest income on the certificates of deposit is recorded as income when earned. The certificates matured and renewed on September 1, 2023 and earned interest at annual rates of 1.0% at renewal. The Organization’s certificates of deposit exceed FDIC insured levels by \$452,100 and \$650,000 on June 30, 2023 and 2022, respectively.

HAWAII ISLAND HUMANE SOCIETY

Notes to the Financial Statements  
For the Years Ended June 30, 2023 and 2022

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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

*Pledges Receivable:* The Organization has been conducting a fundraising capital campaign for a state-of-the-art veterinary hospital. 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 written promise is received. The pledges receivable are stated at net estimated realizable value, using a discount rate of 4% to calculate the present value allowance, when applicable to multi-year pledges. Pledges receivable consists of the following as of June 30:

	<u>2023</u>	<u>2022</u>
Capital Campaign - Veterinary Hospital	\$ 55,000	\$ 1,500,000
Other Non-Restricted	19,991	-
Present Value Allowance	-	-
Net Pledges Receivable	<u>\$ 74,991</u>	<u>\$ 1,500,000</u>
Amounts due in:		
Less than one year	\$ 74,991	\$ 1,500,000

*Land, Property and Equipment:* The Organization capitalizes all furniture and equipment with a useful life greater than one year and a cost greater than \$5,000. 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 of the assets as follows:

Buildings and Building Improvements	10-40 years
Land Improvements	10-40 years
Equipment	5-7 years
Vehicles	5-10 years
Software	3 years

In April 2011, the Organization purchased the 12-acre Holualoa parcel with three existing buildings that required renovation prior to occupancy. Project Phases I and II: the Cat Barn, Dog Dorms 1-3, Welcome Center, and Humane Education Building were placed into service in August 2020. To provide enhanced quality care for animals, the Organization has made various site improvements to properties including a dog park and sidewalks, and improvements to the Kea'au property. Included in construction in progress are costs related to the Phase III development of the veterinary hospital.

HAWAII ISLAND HUMANE SOCIETY

Notes to the Financial Statements  
For the Years Ended June 30, 2023 and 2022

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Land, Property and Equipment, net consists of the following as of June 30:

	2023	2022
Kea'au Land	\$ 100,000	\$ 100,000
Holualoa Land	452,646	452,646
Buildings and Building Improvements	9,902,695	9,902,695
Vehicles	239,302	243,302
Operating Room Equipment	66,833	65,522
Equipment - Office	23,816	28,293
Software	6,599	-
Land Improvements	248,963	224,092
Land Improvements - Dog Park	1,184,222	1,184,222
Accumulated Depreciation and Amortization	<u>(1,540,707)</u>	<u>(1,199,467)</u>
Total	10,684,369	11,001,305
Construction In Progress - Veterinary Hospital	5,780,063	2,779,684
Construction In Progress - Kea'au	<u>34,470</u>	<u>32,192</u>
Net Property and Equipment	<u>\$ 16,498,902</u>	<u>\$ 13,813,181</u>

*Impairment of Long-Lived Assets* – The Organization reviews its property for impairment whenever events or changes indicate that the carrying value of an asset may not be recoverable. The Organization compares the carrying value to its fair value in order to determine whether an impairment loss has occurred. For the years ended June 30, 2023 and 2022, no impairment loss has been recognized.

*Investments* - Investments are carried at fair market value in the statement of financial position. The investment income is recognized when earned. The change in unrealized gains and losses are included in the statement of activities and change in net assets.

*Leases:* The Organization adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 2016-02 Topic 842, *Leases*, which supersedes FASB ASC Topic 840, *Leases*, and makes other conforming amendments to U.S. GAAP. FASB ASC 2016-02 Topic 842 requires, among other changes to the lease accounting guidance, lessees to recognize most leases on the statement of financial position via a right-of-use asset and lease liability as well as additional qualitative and quantitative disclosures.

Beginning on July 1, 2022, operating lease assets and liabilities are measured and recorded at the present value of the future minimum lease payments. The determination of whether an arrangement is a lease is made at the lease's inception. An arrangement is (or contains) a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is defined under the standard as having both the right to obtain substantially all of the economic benefits from use of the asset and the right to direct the use of the asset. Management only reassesses its determination if the terms and conditions of the contract are changed. If the interest rate implicit in its leases is not readily determinable, the Organization uses the risk-free rate to determine the present value of lease payments. Leases with an initial term of twelve (12) months or less are not recorded on the statement of financial position.

# HAWAII ISLAND HUMANE SOCIETY

## Notes to the Financial Statements For the Years Ended June 30, 2023 and 2022

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

The Organization adopted these ASUs effective July 1, 2022 and utilized all of the available practical expedients. The adoption had an impact on the Organization's statement of financial position but did not have a material impact on the statement of activities and changes in net assets. Adoption of the standard required the Organization to restate as of July 1, 2022, resulting in an increase in finance lease ROU assets of \$34,512, less accumulated amortization of \$9,967 results in the balance of \$24,545 at June 30, 2023.

*Deferred Fundraising Revenue:* Deferred fundraising revenue consists of special event ticket revenue and sponsorships received for the Putts for Paws charity golf tournament event that will take place in the next fiscal year.

*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 restrictions to be identified as Board Designated net assets for the Capital Campaign. Board Designated Net Assets at June 30, 2023 and 2022 was \$90,698 and \$990,698, 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, 2023 and 2022, permanently restricted net assets consisted of \$22,374 for the Spay/Neuter (S/N) program. Net assets with donor restriction represent restricted grants and funds received from foundations and donors for which the restrictions had not yet been fulfilled.

The net assets with donor restrictions consisted of the following at June 30:

	2023	2022
Capital Campaign	\$ 1,053,836	\$ 3,104,215
Kona Designated	100,000	134,118
Purchase of Equipment	59,918	79,552
Mobile Spay/Neuter	47,909	69,324
Veterinary Hospital Medical Instruments	4,085	-
Equine Fund	19,656	19,656
Michi Haga	15,144	16,684
Disaster Relief Lava Flow	9,485	27,448
Kea'au Kennels	8,479	45,110
Second Chance	4,139	-
Education	3,651	3,915
Life Saving	-	35,310
Pet Support	-	4,000
Kona Kennels	-	399
Volunteer and Foster Program	-	218
Spay/Neuter	-	67
Total - Temporary Restricted	1,326,302	3,540,016
Permanently Restricted	22,374	22,374
Total	\$ 1,348,676	\$ 3,562,390

# HAWAII ISLAND HUMANE SOCIETY

## Notes to the Financial Statements For the Years Ended June 30, 2023 and 2022

### Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – concluded

*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, 2023 and 2022, were \$25,470 and \$41,034, respectively.

*Advertising and Marketing:* The Organization's advertising expenses are related to fundraising activities and program services. There was a total of \$47,780 and \$13,533 in advertising and marketing costs for the years ended June 30, 2023 and 2022, respectively. Both marketing production costs and direct advertising costs are expensed as incurred.

*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.

*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.

*Reclassifications:* 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 total net assets, but did effect the classes of net assets as of June 30, 2022 as follows:

	2022	
	As previously reported	Restated
Net Assets Without Donor Restrictions - Board Designated	\$ 990,698	\$ 990,698
Net Assets Without Donor Restrictions	13,156,469	13,555,580
Net Assets With Donor Restrictions	3,961,501	3,562,390
Total Net Assets	<u>\$ 18,108,668</u>	<u>\$ 18,108,668</u>

### Note 3. CONCENTRATIONS

During the years ending June 30, 2023 and 2022, a significant amount of donations were provided by a few major contributors. Specifically, for the year ending June 30, 2023, approximately 45% of donations was provided by a single donor, and for the year ending June 30, 2022, approximately 86% of donations were provided by three (3) separate donors. It is always considered reasonably possible that benefactors, grantors or contributors might be lost in the near term.

The Organization is a not-for-profit organization with locations in Holualoa-Kona and Kea'au, Hawaii, and its future activities include operating a veterinary hospital located in Holualoa-Kona. Due to a nation-wide veterinarian and trained veterinary care shortage, the Organization may need to provide significant incentives for procuring and retaining labor to staff the hospital.

# HAWAII ISLAND HUMANE SOCIETY

## Notes to the Financial Statements For the Years Ended June 30, 2023 and 2022

### Note 4. 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.

The following table sets forth, by level within the fair value hierarchy, the Organization's investments measured at fair value on a recurring basis:

Assets	Total 2023	Quoted Prices: Level 1	Total 2022	Quoted Prices: Level 1
Money Market Mutual Fund	\$ 5,819	\$ 5,819	\$ -	\$ -
Marketable Securities	16,671	16,671	11,646	11,646
Total	\$ 22,490	\$ 22,490	\$ 11,646	\$ 11,646

There are no other financial assets or liabilities measured at fair value on a recurring or nonrecurring basis as of June 30, 2023 and 2022.

### Note 5. LEASES

The Organization leases a vehicle and office equipment under finance leases in order to fulfill its mission.

*Ford Ranger vehicle* - The term of the lease is 48 months commencing in February 2021 and expiring in January 2025 at an implicit rate of 0.6%. Lease payments are \$582 per month.

*Ricoh-IMC3000 printer* - The term of the lease is 48 months commencing in November 2021 and expiring in October 2025 at an implicit rate of 1.2%. Lease payments are \$200 per month, exclusive of usage fees and consumables.

*Ricoh-IMC4500 printer* - The term of the lease is 48 months commencing in March 2023 and expiring in February 2027 at an implicit rate of 4.3%. Lease payments are \$199 per month, exclusive of usage fees and consumables.

## HAWAII ISLAND HUMANE SOCIETY

### Notes to the Financial Statements For the Years Ended June 30, 2023 and 2022

#### Note 5. LEASES - concluded

As of June 30, 2023, the finance lease ROU assets for these leases had a balance of \$24,545, net of accumulated amortization of \$9,967, as shown in other noncurrent assets on the statement of financial position; the lease liabilities of \$24,653 are included in current liabilities \$11,380 and long term liabilities \$13,273. The weighted average remaining lease term was 2.5 years, and the weighted average discount rate was 1.9%.

The maturities of finance lease liabilities as of June 30 were as follows:

2024	\$ 11,768
2025	8,860
2026	3,395
2027	<u>1,600</u>
Total Lease Payments	25,623
Less: Interest	<u>(970)</u>
Present Value of Lease Liabilities	<u>\$ 24,653</u>

#### Note 6. EMPLOYEE RETENTION CREDITS

Section 2301 of the Coronavirus, Aid, Relief and Economic Security Act, as modified by the Consolidated Appropriations Act of 2021 (“CARES Act”), provides employers who have been subject to business closure, or have had a significant decrease in gross receipts due to COVID19, to be eligible for credits covering wages, including certain health care costs (up to \$10,000 per employee), paid to employees during the period operations were suspended or the period of decline in gross receipts, regardless if employees were provided services. The Organization applied for the Employee Retention Credits (ERC) for the years ending June 30, 2021 and 2020 and calculated total credit of \$498,701.

Funds were received during the year ending June 30, 2023 totaling \$363,956, and so the remaining balance in Employee Retention Credits Receivable was \$134,745 at June 30, 2023. Subsequent to year end, the Organization received the entirety of \$134,745 in funds related to this receivable.

#### Note 7. CONTRIBUTED NON-FINANCIAL ASSETS

The Organization follows Accounting Standards Update (ASU) 2020-07, Not-for-Profit Entities (Topic 985): *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. ASU 2020-07 improves financial reporting by providing new presentation and disclosure requirements about contributed nonfinancial assets, including additional disclosure requirements for recognized contributed services. For the years ending June 30, 2023 and 2022, contributed nonfinancial assets included donated fundraising gifts valued at \$113,713 and \$106,560, respectively, donated fundraising services valued at \$15,364 and \$-0-, respectively, donated services value at \$20,000 and \$-0-, respectively, and a donated passenger van valued at \$35,000 in 2022 are recognized in the statements of activities and changes in net assets.

HAWAII ISLAND HUMANE SOCIETY

Notes to the Financial Statements  
For the Years Ended June 30, 2023 and 2022

Note 7. CONTRIBUTED NON-FINANCIAL ASSETS - concluded

*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. A number of volunteers have donated significant amounts of their time however no objective basis is available to measure the value of these services.

Note 8. RETIREMENT PLAN

The Hawaii Island Humane Society maintains a Simplified Employee Pension Plan (SEP) 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, 2023 and 2022, the retirement plan expenses totaled \$14,843 and \$25,306, respectively, recognized in employee benefits in the statements of functional expenses.

Note 9. 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, 2023	
Cash and Cash Equivalents	\$ 1,110,437
Certificates of Deposit	702,100
Pledges Receivable	74,991
Less those unavailable for general expenditures:	
Donor permanently restricted in perpetuity	(22,374)
Donor restricted with time or purpose restrictions	<u>(1,326,302)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 538,852</u>



HAWAII ISLAND HUMANE SOCIETY

Notes to the Financial Statements  
For the Years Ended June 30, 2023 and 2022

Note 10. RECONCILIATION OF CHANGES IN NET ASSETS TO NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES

	<u>2023</u>	<u>2022</u>
Changes in Net Assets	\$ 181,842	\$ 5,573,174
Adjustments to Reconcile:		
Proceeds From Contributions Restricted for Long-Term Purposes	(2,373,011)	(3,655,820)
Depreciation and Amortization	363,856	344,277
Donation of Vehicle	-	(35,000)
Loss on Disposal	-	14,333
PPP Loan Forgiveness (Note 12)	-	(353,632)
Change in Operating Assets and Liabilities:		
Change in Accounts Receivable	(52,156)	(7,719)
Change in Pledges Receivable	1,425,009	(1,500,000)
Change in Employee Retention Credits Receivable	(134,745)	-
Change in Prepaid Expenses	(6,938)	(318)
Change in Retail Inventory	3,034	6,839
Change in Accounts Payable	26,478	13,339
Change in Accrued Accrued Wages and Taxes	(32,257)	14,989
Change in Accrued Vacation Payable	-	(25,608)
Change in Deferred Fundraising Revenue	34,253	-
Net Cash (Used) Provided by Operating Activities	<u>\$ (564,635)</u>	<u>\$ 388,854</u>

Note 11. 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 2023 and 2022.

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 2020.

## HAWAII ISLAND HUMANE SOCIETY

### Notes to the Financial Statements For the Years Ended June 30, 2023 and 2022

#### Note 12. PAYCHECK PROTECTION PROGRAM LOANS

The Paycheck Protection Program (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.

On February 8, 2021 the Organization received loan proceeds in the amount of \$353,632 under a second round draw. On November 2021, this second loan was forgiven in full.

#### Note 13. RECENT ACCOUNTING PRONOUNCEMENTS

In June 2016, the FASB issued ASU 2016-13, Financial Instruments—Credit Losses (Topic 326), *Measurement of Credit Losses on Financial Instruments*. The standard's main goal is to improve financial reporting by requiring earlier recognition of credit losses on financing receivables and other financial assets in scope. For entities that have adopted the amendments in ASU 2016-13, the amendments in this update are effective for fiscal years beginning after December 15, 2022. The provisions are effective for the Organization’s fiscal year ending June 30, 2024. Management is currently evaluating the impact that the adoption of these provisions will have on the financial statements.

#### Note 14. SUBSEQUENT EVENTS

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through March 5, 2024, the date the financial statements were available to be issued. There are no recognized subsequent events, events that provide additional evidence about conditions that existed at the statement of financial position date, or non-recognized subsequent events, or events that provide evidence about conditions that did not exist at the statement of financial position date, which are necessary to disclose to keep the financial statements from being misleading.

#### Note 15. CONTINUING OPERATIONS

The Organization’s change in net assets was \$181,842 for the year ending June 30, 2023 and at that date, current assets exceed current liabilities by \$1,757,846. However, the change in net assets includes \$498,701 in Employee Retention Credits described in Note 6 which are considered a one-time benefit, as well as non-cash contributions totaling \$149,077 described in Note 7. The Organization believes it has sufficient cash and net assets to operate over the next 12 months. However, additional funding will be necessary to meet the increasing demand for its services and to address the inflationary costs to goods and labor.

HAWAII ISLAND HUMANE SOCIETY

Notes to the Financial Statements  
For the Years Ended June 30, 2023 and 2022

Note 15. CONTINUING OPERATIONS - *concluded*

To date in fiscal year 2024, the Organization has experienced a further decrease in net assets and negative cash flows from operating activities. Whether and when the Organization can attain an increase in net assets and positive cash flows from operating activities is uncertain. In the future, these uncertainties may cast doubt upon the Organization's ability to continue as a going concern.

The Organization has and continues to reduce expenditures and obtain donations in order to fund its operations. This need may be adversely affected by inflationary concerns and uncertain market conditions. The outcome of these matters cannot be predicted at this time.