

HAWAII ISLAND HUMANE SOCIETY
(A Hawaii Nonprofit Corporation)

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

FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

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) which comprise the statements of financial position as of June 30, 2021 and 2020, 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, 2021 and 2020, 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.

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 & Management Group

Hilo, Hawai‘i
April 30, 2022

HAWAII ISLAND HUMANE SOCIETY

Statements of Financial Position

June 30, 2021 and 2020

	ASSETS	
	<u>2021</u>	<u>2020</u>
CURRENT ASSETS		
Cash and Cash Equivalents (Note 2)	\$ 1,493,011	\$ 1,952,707
Other Current Assets		
Accounts Receivable	3,990	6,692
Pledge Receivable, net of Allowance (Note 16)	-	6,000
Prepaid Expense	-	1,652
Retail Inventory (Note 2)	27,054	1,840
Total Other Current Assets	<u>31,044</u>	<u>16,184</u>
Total Current Assets	<u>1,524,055</u>	<u>1,968,891</u>
PROPERTY AND EQUIPMENT (Note 2)		
Kea'au Land	100,000	100,000
Holualoa Land (Note 14)	452,646	452,646
Buildings	9,942,695	871,502
Vehicles	188,407	455,473
Equipment - Office	28,293	69,689
Operating Room Equipment	65,522	54,292
Leasehold Improvements	-	150,653
Land Improvements (Note 15)	201,092	12,292
Land Improvements - Dog Park (Note 15)	1,184,222	1,184,222
Construction In Progress (Note 14)	189,213	8,431,341
Miscellaneous Assets	-	21,954
Total Capitalized Assets	<u>12,352,090</u>	<u>11,804,064</u>
Accumulated Depreciation	<u>(860,857)</u>	<u>(962,800)</u>
Net Property and Equipment	<u>11,491,233</u>	<u>10,841,264</u>
OTHER ASSETS		
Investments (Note 4)	-	24,672
Deposits - Other	-	500
Total Other Assets	<u>-</u>	<u>25,172</u>
TOTAL ASSETS	<u>\$ 13,015,288</u>	<u>\$ 12,835,327</u>

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

HAWAII ISLAND HUMANE SOCIETY

Statements of Financial Position

June 30, 2021 and 2020

LIABILITIES AND NET ASSETS

	<u>2021</u>	<u>2020</u>
CURRENT LIABILITIES		
Accounts Payable	\$ 40,977	\$ 314,762
Accrued Wages and Taxes	41,732	89,330
Accrued Vacation Payable	43,453	34,648
Payroll Protection Program Loan (Note 21)	353,632	343,000
Total Current Liabilities	<u>479,794</u>	<u>781,740</u>
NET ASSETS (Note 2)		
Net Assets Without Donor Restrictions Board Designated	40,698	40,698
Net Assets Without Donor Restrictions	11,459,147	10,856,279
Net Assets With Donor Restrictions	1,035,649	1,156,610
Total Net Assets	<u>12,535,494</u>	<u>12,053,587</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 13,015,288</u>	<u>\$ 12,835,327</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, 2021 and 2020

	2021			2020				
	Without Donor Restrictions	With Donor Restrictions		Without Donor Restrictions	With Donor Restrictions			
		Temporarily	Permanently		Temporarily	Permanently	Total 2020	
PUBLIC SUPPORT AND REVENUE								
Donations	\$ 616,619	\$ 1,207,519	\$ -	\$ 1,824,138	\$ 349,852	\$ 5,287,773	\$ -	\$ 5,637,625
Grants	121,400	281,361	-	402,761	24,650	40,000	-	64,650
Forgiveness of PPP Loan (Note 21)	343,000	-	-	343,000				
County of Hawai'i	155,076	-	-	155,076	2,026,444	-	-	2,026,444
Adoptions	107,258	-	-	107,258	164,256	-	-	164,256
Miscellaneous Revenue	23,470	-	-	23,470	13,598	-	-	13,598
Sales (net)	14,224	-	-	14,224	13,794	-	-	13,794
S/N CAP Coupon Sales (Note 12)	1,046	-	-	1,046	275	-	-	275
Fundraising	-	-	-	-	71,813	-	-	71,813
Donated Rent (Note 7)	-	-	-	-	25,200	-	-	25,200
Humane Shelter Services	-	-	-	-	15,017	-	-	15,017
Net Assets Released from Restrictions	1,609,841	(1,609,841)	-	-	4,954,244	(4,954,244)	-	-
Total Public Support and Revenue	2,991,934	(120,961)	-	2,870,973	7,659,143	373,529	-	8,032,672
EXPENSES								
Program Expenses	2,138,529	-	-	2,138,529	2,901,901	-	-	2,901,901
Management and General	235,952	-	-	235,952	305,571	-	-	305,571
Fundraising Expenses	14,585	-	-	14,585	64,864	-	-	64,864
Total Expenses	2,389,066	-	-	2,389,066	3,272,335	-	-	3,272,335
CHANGES IN NET ASSETS	\$ 602,868	\$ (120,961)	\$ -	\$ 481,907	\$ 4,386,808	\$ 373,529	\$ -	\$ 4,760,337
NET ASSETS, BEGINNING OF YEAR	10,896,977	1,134,236	22,374	12,053,587	6,510,169	760,707	22,374	7,293,250
NET ASSETS, END OF YEAR	\$ 11,499,845	\$ 1,013,275	\$ 22,374	\$ 12,535,494	\$ 10,896,977	\$ 1,134,236	\$ 22,374	\$ 12,053,587

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, 2021 and 2020

	Supporting Services				Supporting Services			
	Program Services	Management and General	Fundraising	Total 2021	Program Services	Management and General	Fundraising	Total 2020
Salaries and Wages	\$ 776,026	\$ 87,194	\$ 8,719	\$ 871,939	\$ 1,271,439	\$ 142,858	\$ 14,286	\$ 1,428,583
Depreciation	341,170	-	-	341,170	123,003	-	-	123,003
Employee Benefits	127,216	14,294	1,429	142,939	209,303	23,517	2,352	235,172
Legal and Professional Services	96,104	33,766	-	129,870	108,310	38,055	-	146,365
Loss on Disposal	126,836	-	-	126,836	-	-	-	-
Kennel Supplies, Food and Medicine	109,740	-	-	109,740	331,327	-	-	331,327
Repairs and Maintenance	70,043	37,716	-	107,759	62,477	33,642	-	96,119
Office Supplies	78,004	19,501	-	97,505	36,676	9,169	-	45,845
Payroll Taxes	82,930	9,318	932	93,180	143,512	16,125	1,613	161,250
Utilities	87,289	5,572	-	92,861	115,446	7,369	-	122,815
Surgery Programs and Supplies	54,306	5,045	-	59,351	116,449	10,818	-	127,267
Insurance	48,134	3,072	-	51,206	113,301	7,232	-	120,533
Adoption Expense	38,318	-	-	38,318	28,885	-	-	28,885
Network Expense	19,605	13,070	-	32,675	17,152	11,435	-	28,587
Advertising (Note 2)	26,544	-	-	26,544	41,776	-	-	41,776
Auto Expense	13,024	-	-	13,024	66,742	-	-	66,742
Other Expenses	9,915	2,177	-	12,092	4,150	911	-	5,061
Meals and Travel	9,385	1,788	-	11,173	5,744	1,094	-	6,838
Bank and Credit Card Fees	6,894	-	1,724	8,618	8,030	-	2,008	10,038
Bad Debt Expense	4,850	-	-	4,850	-	-	-	-
Rent, including In-kind Rent (Note 7)	2,597	1,250	-	3,847	31,530	1,250	-	32,780
Cost of Goods Sold	3,719	-	-	3,719	-	-	-	-
Postage and Freight	1,212	1,155	520	2,887	796	758	341	1,895
Animal Control Equipment	2,429	-	-	2,429	4,325	-	-	4,325
Dues, Licenses, Subscriptions	1,371	1,034	-	2,405	879	663	-	1,542
Fundraising Expense	-	-	1,080	1,080	-	-	40,754	40,754
General Excise Tax and Other Taxes	451	-	159	610	9,573	-	3,363	12,936
Printing	417	-	22	439	2,811	-	148	2,959
Veterinary Care and Evidence Animals	-	-	-	-	24,100	-	-	24,100
Animal Disposal	-	-	-	-	19,393	-	-	19,393
Uniforms	-	-	-	-	3,033	-	-	3,033
Staff Meeting and Training	-	-	-	-	1,737	675	-	2,412
TOTAL EXPENSES	\$ 2,138,529	\$ 235,952	\$ 14,585	\$ 2,389,066	\$ 2,901,900	\$ 305,571	\$ 64,864	\$ 3,272,335

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, 2021 and 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Hawai'i County Funding	\$ 155,076	\$ 2,026,444
Retail Sales and Services to Public	148,700	252,250
Grants	402,761	71,813
S/N CAP Coupon Sales	-	275
Foundations and Other Donations	1,830,138	5,637,625
Interest Income	-	12,587
Other Cash Received	-	1,283
Cash Paid to Employees and Vendors	<u>(2,260,054)</u>	<u>(3,279,531)</u>
Net Cash Provided by Operating Activities (Note 19)	276,621	4,722,746
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds (Purchases) from Investments	24,672	(272)
Proceeds from Asset Sale	8,800	-
Cash Used to Purchase Property and Equipment	(28,583)	(7,478)
Cash Used for Construction in Process	<u>(1,094,838)</u>	<u>(4,685,653)</u>
Net Cash Used by Investing Activities	(1,089,949)	(4,693,403)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Payroll Protection Program Loan (Note 21)	<u>353,632</u>	<u>343,000</u>
Net Cash Provided by Financing Activities	<u>353,632</u>	<u>343,000</u>
Net (Decrease) Increase in Cash, Cash Equivalents, and Restricted Cash	(459,696)	372,343
CASH BALANCE, CASH EQUIVALENTS BEGINNING OF YEAR	<u>1,952,707</u>	<u>1,580,364</u>
CASH BALANCE, CASH EQUIVALENTS END OF YEAR	<u><u>\$ 1,493,011</u></u>	<u><u>\$ 1,952,707</u></u>
Supplemental Non-Cash Investing Activities		
Construction in Progress in Accounts Payable	\$ 3,354	\$ 208,584
Paycheck Protection Plan Forgiveness (Note 21)	\$ 343,000	\$ -

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

HAWAII ISLAND HUMANE SOCIETY
Supplementary Information
Schedules of County Program Activities
For the Years Ended June 30, 2021 and 2020

	2021			2020		
	Animal Control	S/N CAP	Total	Animal Control	S/N CAP	Total
Receipts:						
County of Hawai'i Contracted Funds	\$ 155,075	\$ 1,046	\$ 156,121	\$ 1,860,900	\$ 165,544	\$ 2,026,444
Gain on Sale of Asset	-	-	-	-	-	-
Total Receipts	155,075	1,046	156,121	1,860,900	165,544	2,026,444
Operating Expenses						
Salaries and Wages	112,021	-	112,021	992,258	-	992,258
Employee Benefits	13,044	-	13,044	166,189	-	166,189
Payroll Taxes	11,775	-	11,775	152,648	-	152,648
Animal Control Equipment	8,358	-	8,358	875	-	875
Utilities	8,332	-	8,332	85,548	-	85,548
Office Equipment and Rentals	5,918	-	5,918	8,822	-	8,822
Legal and Professional Services	4,967	-	4,967	20,735	-	20,735
Insurance	4,268	-	4,268	73,489	-	73,489
Animal Disposal	3,737	-	3,737	21,371	-	21,371
Auto Expense	3,465	-	3,465	64,189	-	64,189
Repairs and Maintenance	3,346	-	3,346	43,511	-	43,511
Advertising	1,615	-	1,615	19,664	-	19,664
Network Expense	1,275	-	1,275	10,653	-	10,653
Miscellaneous	1,045	-	1,045	174	-	174
Rent	295	-	295	886	-	886
Office Supplies	265	-	265	7,906	-	7,906
Bank and Credit Card Fees	180	-	180	2,440	-	2,440
Kennel Supplies, Food and Medicine	-	-	-	201,354	-	201,354
Surgery Programs and Supplies (Note 12)	-	-	-	-	135,452	135,452
Outside Services/Contract Labor	-	-	-	57,126	-	57,126
Travel and Mileage	-	-	-	4,175	-	4,175
Uniforms	-	-	-	2,469	-	2,469
Staff Meeting and Training	-	-	-	2,130	-	2,130
Postage and Freight	-	-	-	1,013	-	1,013
Veterinary Care and Evidence Animals	-	-	-	272	-	272
Dues, Licenses, Subs, Taxes	-	-	-	255	-	255
Total Operating Expenses	183,906	-	183,906	1,940,151	135,452	2,075,603
Capital Lease Payments	-	-	-	-	-	-
Fixed Assets Purchased	-	-	-	-	-	-
Excess Receipts Over (Under) Disbursements	\$ (28,831)	\$ 1,046	\$ (27,785)	\$ (79,251)	\$ 30,092	\$ (49,159)

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

HAWAII ISLAND HUMANE SOCIETY

Notes to the Financial Statements June 30, 2021 and 2020

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 was responsible for carrying out animal control for the County of Hawai‘i, for the entire island of Hawai‘i through July 2020. 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, 2021 and 2020, were \$3,719 and \$-0-, 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 \$2,500. 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 of Hawaii grant funds. As a result, these assets revert back to the grantor upon discontinuance of their intended purposes. On July 31, 2020, the Organization discontinued providing services to the County of Hawaii and returned the fixed assets purchased with grant funds.

Retail 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 \$26,544 and \$41,776 in advertising costs for the years ended June 30, 2021 and 2020, 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, 2021 and 2020

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>2021</u>	<u>2020</u>
Fully Insured Deposits	\$ 386,398	\$ 853,101
Uninsured and Uncollateralized	<u>1,106,613</u>	<u>1,099,605</u>
	<u>\$ 1,493,011</u>	<u>\$ 1,952,707</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 restrictions to be identified as Board Designated net assets for the Capital Campaign. Board Designated Net Assets at June 30, 2021 and 2020, was \$40,698 for both years.

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, 2021 and 2020, 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 2021 and 2020, 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 restrictions had not yet been fulfilled. The net assets donor restrictions consisted of the following at June 30:

HAWAII ISLAND HUMANE SOCIETY

Notes to the Financial Statements June 30, 2021 and 2020

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

	2021	2020
Capital Campaign	\$ 591,091	\$ 633,678
Mobile Spay/Neuter	83,609	133,900
Purchase of Equipment	82,967	-
Spay/Neuter	57,225	36,222
Kea'au Kennels	51,234	89,766
Second Chance	44,630	60,522
Disaster Relief Lava Flow	27,448	27,448
Equine Fund	19,656	19,656
Michi Haga	18,369	19,019
Community Veterinary Care	14,013	-
Life Saving	11,289	39,986
Education	4,037	5,362
Kona Designated	3,148	-
COVID-19	3,088	16,006
Volunteer and Foster Program	1,073	-
Kona Kennels	398	540
Katie Fund	-	47,649
Waimea Kennels	-	4,482
Total	<u>\$ 1,013,275</u>	<u>\$ 1,134,236</u>

Note 3. 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 4. INVESTMENTS

Investments: The Organization has implemented *FASB ASC 820-10-50-1* which establishes a fair value hierarchy for inputs used in measuring fair market value that maximizes the use of observable inputs, and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on the best information available in the circumstances. This fair value hierarchy consists of three broad levels.

- Level 1 inputs consist of unadjusted quoted prices in active markets such as stock exchanges for identical assets and have the highest priority.
- Level 2 inputs consist of significant other observable inputs such as quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset and liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 inputs consist of significant unobservable inputs and include situations where there is little, if any, market activity for the investment. The inputs require significant judgment or estimates, such as those associated with discounted cash flow methodologies and appraisals.

HAWAII ISLAND HUMANE SOCIETY

Notes to the Financial Statements June 30, 2021 and 2020

Note 4. INVESTMENTS - continued

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

Assets	Total 2021	Quoted Prices: Level 1	Significant Other Inputs: Level 2	Significant Non- Observable Inputs: Level 3
Certificate of Deposit	\$ -	\$ -	\$ -	\$ -
Total	\$ -	\$ -	\$ -	\$ -

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

Note 5. LEASES

The Organization had a cancellable lease to rent space from Parker Ranch for the Waimea facilities, which concluded December 2020 and was not renewed.

In June 2015, a copier lease was transferred to a new non-cancelable lease with monthly payments of \$384 that expires May 1st, 2022. The future lease expense for the copier at June 30, 2022 is \$853.

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.

HAWAII ISLAND HUMANE SOCIETY

Notes to the Financial Statements June 30, 2021 and 2020

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. 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 previous Kona shelter was located belonged to the County of Hawai'i. The County provided the site at no cost to the Organization pursuant to an agreement that was cancelled as of July 31, 2020. The annual estimated value of the donated rent from the County of Hawai'i was \$101 and \$25,200 at June 30, 2021 and 2020, respectively.

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.

The Organization has adopted 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. There is no change in net assets in connection with the implementation of ASU 2018-08.

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, 2021 and 2020, the retirement plan expenses totaled \$18,311 and \$26,024, respectively.

Note 10. 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, and the program concluded in July 2020, therefore no associated liability was recognized at June 30, 2021 and 2020.

HAWAII ISLAND HUMANE SOCIETY

Notes to the Financial Statements June 30, 2021 and 2020

Note 11. 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, 2021	\$ 1,493,011
Less those unavailable for general expenditures:	
Donor permanently restricted in perpetuity	(22,374)
Donor restricted with time or purpose restrictions	<u>(1,013,275)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 457,362</u>

Note 12. 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.

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 2021 and 2020.

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 2018.

HAWAII ISLAND HUMANE SOCIETY

Notes to the Financial Statements June 30, 2021 and 2020

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, 2021 and 2020, construction in progress are \$189,213 and \$8,431,341. The projects for the Cat Barn, Dog Dorms 1-3, Welcome Center, and Humane Education Building were placed into service in 2021.

Note 15. LAND IMPROVEMENTS

To provide enhanced quality care for animals, the Hawaii Island Humane Society has made various site improvements to properties including a dog park and sidewalks, and improvements to the Kea'au property. Total improvements were \$1,385,314 and \$1,196,514 for the years ending June 30, 2021 and 2020, respectfully.

Note 16. PLEDGE RECEIVABLE

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

	<u>2021</u>	<u>2020</u>
Gross Pledge Receivable	\$ -	\$ 6,000
Present Value Allowance	-	-
Net Pledge Receivable	<u>\$ -</u>	<u>\$ 6,000</u>
Amounts due in:		
Less than one year	\$ -	\$ 6,000
One to three years	\$ -	\$ -

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, 2021 and 2020, were \$4,762 and \$7,349, respectively.

HAWAII ISLAND HUMANE SOCIETY

Notes to the Financial Statements June 30, 2021 and 2020

Note 18. SUBSEQUENT EVENTS

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through April 30, 2022, the date the financial statements were available for use. There are no recognized subsequent events, events that provide additional evidence about conditions that existed at the balance sheet date, or non-recognized subsequent events, or events that provide evidence about conditions that did not exist at the balance sheet date, which are necessary to disclose to keep the financial statements from being misleading.

Subsequent to year end, the COVID-19 pandemic was still ongoing. The United States economy was negatively affected and the financial markets have experienced significant losses due to the outbreak. At the time these financial statements were available to be issued, the situation remained very volatile and the full effect of the pandemic on the operations of the Organization could not be determined.

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

	<u>2021</u>	<u>2020</u>
Change in Net Assets	\$ 481,907	\$ 4,760,337
Adjustments to Reconcile:		
Add: Depreciation	341,170	123,003
Loss on Disposal	126,836	-
PPP Loan Forgiveness (Note 21)	(343,000)	-
Change in Accounts Receivable	8,702	(5,467)
Change in Other Current Assets	(23,562)	10,300
Change in Deposits Other	500	-
Change in Accounts Payable	(277,139)	(192,800)
Change in Credit Card Payable	-	(2,408)
Change in Accrued Liabilities	(38,793)	29,781
	<u>\$ 276,621</u>	<u>\$ 4,722,746</u>
Net Cash Provided by Operating Activities	<u>\$ 276,621</u>	<u>\$ 4,722,746</u>

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 entity fiscal years beginning after December 15, 2021, but permits early adoption, and mandates a modified retrospective transition method. The provisions are effective for the Organization's fiscal year ending June 30, 2023. Management is currently evaluating the impact that the adoption of these provisions will have on the combined financial statements, but expects ASU 2016-02 to add significant right-of-use assets and lease liabilities to the combined statement of financial position.

HAWAII ISLAND HUMANE SOCIETY

Notes to the Financial Statements
June 30, 2021 and 2020

Note 21. 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”). On March 8, 2021, this loan was forgiven in full. On February 8, 2021 the Organization received loan proceeds in the amount of \$353,632 under the PPP second round draw. 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. Subsequent year, in November 2021, the second round of PPP loan was forgiven in full.