

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

AUDITED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

# 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, 2015 and 2014, and the related statements of activities and change in net assets, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hawaii Island Humane Society as of June 30, 2015 and 2014, and the related statements of activities and changes in net assets, functional expense and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

To the Management and Board of Directors of  
Hawaii Island Humane Society

**Other Matter**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedules of County Program Activities on page 10 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in black ink that reads "Carbonaro CPAs". The signature is written in a cursive, flowing style.

Hilo, Hawai'i  
September 1, 2015

HAWAII ISLAND HUMANE SOCIETY

Statements of Financial Position  
For the Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents (Note 2)	\$ 1,369,495	\$ 1,283,643
Other Current Assets		
Accounts Receivable	1,690	2,016
Pledge Receivable, net of Allowance (Note 16)	605,140	83,600
Prepaid Expense	9,353	2,749
Retail Inventory	14,652	1,222
Total Other Current Assets	<u>630,835</u>	<u>89,587</u>
Total Current Assets	<u>2,000,330</u>	<u>1,373,230</u>
<b>PROPERTY AND EQUIPMENT (Note 2)</b>		
Kea'au Land (Note 13)	100,000	100,000
Holualoa Land (Note 14)	452,646	452,646
Buildings	871,502	871,502
Vehicles	339,642	306,413
Equipment - Office	112,961	125,963
Operating Room Equipment	49,084	49,084
Leasehold Improvements (Note 15)	107,327	102,633
Construction In Progress (Note 14)	448,575	-
Miscellaneous Assets	21,954	21,954
	<u>2,503,691</u>	<u>2,030,195</u>
Accumulated Depreciation	<u>(805,484)</u>	<u>(753,479)</u>
Net Property and Equipment	<u>1,698,207</u>	<u>1,276,716</u>
<b>OTHER ASSETS</b>		
Certificate of Deposit (Note 2)	23,682	23,505
Annuity Contracts (Note 2)	17,524	24,248
Deposits - Other	5,000	5,200
Total Other Assets	<u>46,206</u>	<u>52,953</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 3,744,743</u></u>	<u><u>\$ 2,702,899</u></u>

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

HAWAII ISLAND HUMANE SOCIETY

Statements of Financial Position  
For the Years Ended June 30, 2015 and 2014

LIABILITIES AND NET ASSETS

	<u>2015</u>	<u>2014</u>
CURRENT LIABILITIES		
Accounts Payable	\$ 80,639	\$ 47,570
S/N Coupon Liability (Note 11)	2,120	4,750
Credit Cards	11,549	10,364
Total Accounts Payable and Credit Cards	<u>94,308</u>	<u>62,684</u>
OTHER CURRENT LIABILITIES		
Accrued Wages	25,381	23,870
Accrued Vacation Payable	31,071	29,262
Accrued Payroll Taxes and Benefits	8,205	8,023
Current Portion of Capitalized Leases (Note 4)	7,222	16,843
Total Other Current Liabilities	<u>71,879</u>	<u>77,998</u>
TOTAL CURRENT LIABILITIES	166,187	140,682
LONG TERM LIABILITIES		
Capitalized Leases Payable (Note 4)	-	9,207
Total Long Term Liabilities	<u>-</u>	<u>9,207</u>
TOTAL LIABILITIES	166,187	149,889
NET ASSETS (Note 5)		
Unrestricted	2,007,323	1,473,128
Board Designated	77,156	178,445
Unrestricted Net Assets	<u>2,084,479</u>	<u>1,651,573</u>
Temporarily Restricted	1,471,730	879,090
Permanently Restricted	22,347	22,347
Total Net Assets	<u>3,578,556</u>	<u>2,553,010</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,744,743</u>	<u>\$ 2,702,899</u>

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

HAWAII ISLAND HUMANE SOCIETY  
**Statement of Activities and Change in Net Assets**  
For the Year Ended June 30, 2015

	Unrestricted	Restricted		2015 Total
		Temporarily	Permanently	
<b>PUBLIC SUPPORT AND REVENUE</b>				
County of Hawai'i	\$ 1,982,500	\$ -	\$ -	\$ 1,982,500
Donated Services (Note 7)	-	-	-	-
Donations	313,023	1,164,344	-	1,477,367
Fundraising	56,794	-	-	56,794
Grants	6,742	76,190	-	82,932
Adoptions	123,152	-	-	123,152
S/N CAP Coupon Sales (Note 10)	38,962	-	-	38,962
Donated Rent (Note 7)	25,200	-	-	25,200
Sales	25,545	-	-	25,545
Cost of Goods Sold (Note 2)	(18,589)	-	-	(18,589)
Miscellaneous Revenue	6,643	1,421	-	8,064
Humane Shelter Services	14,309	-	-	14,309
Recycling	1,698	-	-	1,698
Net Assets Released from Restrictions	649,315	(649,315)	-	-
<b>Total Public Support and Revenue</b>	<b>3,225,294</b>	<b>592,640</b>	<b>-</b>	<b>3,817,934</b>
<b>EXPENSES</b>				
Program Expenses	2,410,535	-	-	2,410,535
Management and General	239,873	-	-	239,873
Fundraising Expenses	141,980	-	-	141,980
<b>Total Expenses</b>	<b>2,792,388</b>	<b>-</b>	<b>-</b>	<b>2,792,388</b>
<b>CHANGE IN NET ASSETS</b>	<b>\$ 432,906</b>	<b>\$ 592,640</b>	<b>\$ -</b>	<b>\$ 1,025,546</b>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<b>1,651,573</b>	<b>879,090</b>	<b>22,347</b>	<b>2,553,010</b>
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 2,084,479</b>	<b>\$ 1,471,730</b>	<b>\$ 22,347</b>	<b>\$ 3,578,556</b>

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

HAWAII ISLAND HUMANE SOCIETY  
**Statement of Activities and Change in Net Assets**  
For the Year Ended June 30, 2014

	Unrestricted	Restricted		2014 Total
		Temporarily	Permanently	
<b>PUBLIC SUPPORT AND REVENUE</b>				
County of Hawai'i	\$ 1,961,875	\$ -	\$ -	\$ 1,961,875
Donated Services (Note 7)	5,000	-	-	5,000
Donations	533,043	306,073	-	839,116
Adoptions	135,754	-	-	135,754
Fundraising	53,213	-	-	53,213
S/N CAP Coupon Sales (Note 10)	70,277	-	-	70,277
Sales	24,809	-	-	24,809
Cost of Goods Sold (Note 2)	(17,636)	-	-	(17,636)
Grants	-	152,060	-	152,060
Donated Rent (Note 7)	25,200	-	-	25,200
Humane Shelter Services	16,804	-	-	16,804
Miscellaneous Revenue	5,990	10,469	-	16,459
Recycling	1,339	-	-	1,339
Net Assets Released from Restrictions	172,211	(172,211)	-	-
<b>Total Public Support and Revenue</b>	<b>2,987,879</b>	<b>296,391</b>	<b>-</b>	<b>3,284,270</b>
<b>EXPENSES</b>				
Program Expenses	2,401,606	-	-	2,401,606
Management and General	243,514	-	-	243,514
Fundraising Expenses	150,583	-	-	150,583
<b>Total Expenses</b>	<b>2,795,703</b>	<b>-</b>	<b>-</b>	<b>2,795,703</b>
<b>CHANGE IN NET ASSETS</b>	<b>\$ 192,176</b>	<b>\$ 296,391</b>	<b>\$ -</b>	<b>\$ 488,567</b>
NET ASSETS, BEGINNING OF YEAR	1,459,397	582,699	22,347	2,064,443
NET ASSETS, END OF YEAR	<u>\$ 1,651,573</u>	<u>\$ 879,090</u>	<u>\$ 22,347</u>	<u>\$ 2,553,010</u>



HAWAII ISLAND HUMANE SOCIETY

Statement of Functional Expenses  
For the Year Ended June 30, 2015

	Program Services	Supporting Services		2015 Total
		Management and General	Fundraising	
Salaries and Wages	\$ 1,124,735	\$ 126,300	\$ 12,636	\$ 1,263,671
Kennel Supplies, Food and Medicine	251,959	-	-	251,959
Employee Benefits	188,275	21,155	2,115	211,545
Payroll Taxes	122,680	13,781	1,347	137,808
Fundraising Expense	-	-	119,283	119,283
Surgery Programs and Supplies	107,887	10,061	-	117,948
Auto Expense	94,564	-	-	94,564
Utilities	85,781	5,359	-	91,140
Legal and Professional Services	63,151	21,843	-	84,994
Insurance	64,060	4,417	-	68,477
Depreciation	59,806	-	-	59,806
Repairs and Maintenance	30,964	16,665	-	47,629
Advertising	42,921	-	-	42,921
Veterinary Care and Evidence Animals	29,724	-	-	29,724
Animal Disposal	29,637	-	-	29,637
Rent, including In-kind Rent (Note 7)	27,700	1,250	-	28,950
Office Supplies	16,092	4,061	-	20,153
Staff Meeting and Training	12,392	4,817	-	17,209
General Excise Tax and Other Taxes	9,155	-	3,216	12,371
Network Expense	7,163	4,772	-	11,935
Bank and Credit Card Fees	8,528	-	2,131	10,659
Printing	8,693	-	455	9,148
Dues, Licenses, Subscriptions	2,807	2,102	-	4,909
Other Expenses	3,728	831	-	4,559
Uniforms	4,557	-	-	4,557
Postage and Freight	1,909	1,804	797	4,510
Meals and Travel	3,431	655	-	4,086
Loss on Disposal	3,217	-	-	3,217
Animal Control Equipment	1,848	-	-	1,848
Adoption Expense	1,675	-	-	1,675
Humane Education	1,496	-	-	1,496
In Kind - Service (Note 7)	-	-	-	-
<b>TOTAL EXPENSES</b>	<b>\$ 2,410,535</b>	<b>\$ 239,873</b>	<b>\$ 141,980</b>	<b>\$ 2,792,388</b>

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

HAWAII ISLAND HUMANE SOCIETY

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

	Program Services	Supporting Services		2014 Total
		Management and General	Fundraising	
Salaries and Wages	\$ 1,093,640	\$ 126,700	\$ 14,250	\$ 1,234,590
Kennel Supplies, Food and Medicine	226,780	-	-	226,780
Employee Benefits	224,979	26,163	4,210	255,352
Payroll Taxes	119,719	13,803	1,200	134,722
Fundraising Expense	-	-	124,230	124,230
Surgery Programs and Supplies	113,380	10,574	-	123,954
Auto Expense	95,564	-	-	95,564
Utilities	91,661	5,734	-	97,395
Legal and Professional Services	33,273	11,513	-	44,786
Insurance	66,363	4,576	-	70,939
Depreciation	74,567	-	-	74,567
Repairs and Maintenance	28,999	15,614	-	44,613
Advertising	40,594	-	-	40,594
Veterinary Care and Evidence Animals	14,550	-	-	14,550
Animal Disposal	18,600	-	-	18,600
Rent, including In-kind Rent (Note 7)	25,200	1,250	-	26,450
Office Supplies	26,831	6,708	-	33,539
Staff Meeting and Training	12,338	4,796	-	17,134
General Excise Tax and Other Taxes	9,000	-	3,163	12,163
Network Expense	12,749	8,499	-	21,248
Bank and Credit Card Fees	5,786	148	1,483	7,417
Printing	15,482	-	813	16,295
Dues, Licenses, Subscriptions	2,643	1,980	-	4,623
Other Expenses	7,954	1,774	-	9,728
Uniforms	5,671	-	-	5,671
Postage and Freight	2,952	2,791	1,234	6,977
Meals and Travel	4,662	891	-	5,553
Loss on Disposal	-	-	-	-
Animal Control Equipment	11,595	-	-	11,595
Adoption Expense	2,302	-	-	2,302
Humane Education	8,772	-	-	8,772
In Kind - Service (Note 7)	5,000	-	-	5,000
<b>TOTAL EXPENSES</b>	<b>\$ 2,401,606</b>	<b>\$ 243,514</b>	<b>\$ 150,583</b>	<b>\$ 2,795,703</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, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Hawai'i County Funding	\$ 1,982,500	\$ 1,961,875
Retail Sales and Services to Public	264,853	177,367
Fundraising	56,794	178,179
S/N CAP Coupon Sales	36,332	70,277
Foundations and Other Donations	980,853	840,940
Other Cash Received	9,762	17,798
Cash Paid to Employees and Vendors	<u>(2,780,446)</u>	<u>(2,744,773)</u>
Net Cash Provided by Operating Activities (Note 8)	550,648	501,663
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Cash Used to Purchase Certificates of Deposit	(177)	(224)
Proceeds from Annuity Contracts	6,724	6,466
Cash Used to Purchase Property and Equipment	(37,924)	-
Cash Used on Consturction in Process	<u>(416,575)</u>	<u>(10,228)</u>
Net Cash Used by Investing Activities	(447,952)	(3,986)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal Payments on Lease Payable	<u>(16,844)</u>	<u>(14,946)</u>
Net Cash Used by Financing Activities	<u>(16,844)</u>	<u>(14,946)</u>
<b>Net Increase in Cash for the Year</b>	<b>85,852</b>	<b>482,731</b>
CASH BALANCE, BEGINNING OF YEAR	<u>1,283,643</u>	<u>800,912</u>
CASH BALANCE, END OF YEAR	<u><u>\$ 1,369,495</u></u>	<u><u>\$ 1,283,643</u></u>
<hr/>		
Non-Cash Investing and Financing Activities		
Non Cash Items in Construction in Progress	\$ 32,000	\$ -

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, 2015 and 2014

	2015			2014		
	Animal Control	S/N CAP	Total	Animal Control	S/N CAP	Total
Receipts:						
County of Hawai'i Contracted Funds	\$ 1,860,900	\$ 121,600	\$ 1,982,500	\$ 1,840,275	\$ 121,600	\$ 1,961,875
Total Receipts	1,860,900	121,600	1,982,500	1,840,275	121,600	1,961,875
Operating Expenses						
Salaries and Wages	1,023,031	-	1,023,031	1,038,262	-	1,038,262
Employee Benefits	174,824	-	174,824	213,920	-	213,920
Kennel Supplies, Food and Medicine	159,882	-	159,882	131,813	-	131,813
Auto Expense	126,819	-	126,819	90,408	-	90,408
Surgery Programs and Supplies (Note 10)	-	115,356	115,356	(35,848)	123,954	88,106
Payroll Taxes	111,776	-	111,776	110,127	-	110,127
Utilities	72,021	-	72,021	77,028	-	77,028
Legal and Professional Services	62,129	-	62,129	33,632	-	33,632
Insurance	54,093	-	54,093	59,775	-	59,775
Animal Disposal	29,638	-	29,638	18,600	-	18,600
Repairs and Maintenance	29,096	-	29,096	30,111	-	30,111
Office Supplies	11,343	-	11,343	16,705	-	16,705
Office Equipment and Rentals	9,822	-	9,822	9,524	-	9,524
Staff Meeting and Training	9,401	-	9,401	11,947	-	11,947
Network Expense	5,696	-	5,696	10,706	-	10,706
Uniforms	3,974	-	3,974	5,639	-	5,639
Bank and Credit Card Fees	3,108	-	3,108	3,153	-	3,153
Postage and Freight	2,883	-	2,883	2,370	-	2,370
Travel and Mileage	2,279	-	2,279	4,387	-	4,387
Dues, Licenses, Subs, Taxes	2,167	-	2,167	2,171	-	2,171
Animal Control Equipment	1,848	-	1,848	11,595	-	11,595
Veterinary Care and Evidence Animals	1,644	-	1,644	467	-	467
Advertising	1,307	-	1,307	658	-	658
Printing	-	-	-	1,039	-	1,039
Miscellaneous	(139)	-	(139)	126	-	126
Total Operating Expenses	1,898,642	115,356	2,013,998	1,848,315	123,954	1,972,269
Capital Lease Payments	16,842	-	16,842	7,473	-	7,473
Fixed Assets Purchased	37,579	-	37,579	-	-	-
Excess Receipts Over (Under) Disbursements	\$ (92,163)	\$ 6,244	\$ (85,919)	\$ (15,513)	\$ (2,354)	\$ (17,867)

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

# HAWAII ISLAND HUMANE SOCIETY

Notes to the Financial Statements  
June 30, 2015 and 2014

## Note 1. ORGANIZATION

The Hawaii Island Humane Society is a nonprofit Organization (the Organization) incorporated under the laws of the State of Hawai'i on May 10, 1962. Hawaii Island Humane Society is organized to prevent cruelty to animals, to eliminate pet overpopulation, and to enhance the bond between humans and animals.

The Hawaii Island Humane Society is responsible for carrying out animal control for the County of Hawai'i for the entire island of Hawai'i. They maintain shelters in each of three island locations: Kona, Kea'au, and Waimea.

## Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*Method of Accounting:* The Organization uses the accrual method of accounting for financial statement reporting according to generally accepted accounting principles in the United States of America. Under this method of accounting, revenue is recognized when earned rather than when received, and expenses are recognized when incurred rather than when paid.

*Revenue Recognition:* Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Grants and other contributions of cash are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When the donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. The Organization has adopted the policy of recording donor restrictions met in the same year as increases to unrestricted net assets.

*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, 2015 and 2014 were \$18,589 and \$17,636, respectively.

*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, 2015 and 2014

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

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

June 30, 2015				
Assets	Total	Quoted Prices: Level 1	Significant Other Inputs: Level 2	Significant Non- Observable Inputs: Level 3
Certificate of Deposit	\$ 23,682	\$ 23,682	\$ -	\$ -
Annuity Contracts*	17,524	-	-	17,524
Total	<u>\$ 41,206</u>	<u>\$ 23,682</u>	<u>\$ -</u>	<u>\$ 17,524</u>
June 30, 2014				
Assets	Total	Quoted Prices: Level 1	Significant Other Inputs: Level 2	Significant Non- Observable Inputs: Level 3
Certificate of Deposit	\$ 23,505	\$ 23,505	\$ -	\$ -
Annuity Contracts*	24,248	-	-	24,248
Total	<u>\$ 47,753</u>	<u>\$ 23,505</u>	<u>\$ -</u>	<u>\$ 24,248</u>

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

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

	Level 3 2015	Level 3 2014
Balance Beginning of Year	\$ 24,248	\$ 30,714
Donation of Annuities	-	-
Capital Distributions	(6,635)	(7,045)
Net Unrealized and Realized Losses	(89)	579
Balance as of Year End	<u>\$ 17,524</u>	<u>\$ 24,248</u>

*Use of Estimates*: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

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

## HAWAII ISLAND HUMANE SOCIETY

Notes to the Financial Statements  
June 30, 2015 and 2014

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

*Property and Equipment:* The Organization capitalizes all furniture and equipment with a useful life greater than one year and a cost greater than \$1,000. Property and equipment are stated at cost or if donated, at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over the assets' estimated useful lives.

The Organization has purchased various fixed assets with County grant funds. As a result these assets revert back to the grantor upon discontinuance of their intended purposes. However, management plans to use the assets for their intended purposes for the life of the assets, and the likelihood of the assets having to be returned is remote.

*Cash and Cash Equivalents:* For the purpose of the statement of cash flows, the Organization considers all cash other highly liquid investments with initial maturities of three months or less to be cash equivalents. Interest income on the certificates of deposit is recorded as income when earned. Cash and equivalents exclude cash restricted for the endowment fund. The following is a summary of deposits as of June 30:

	<u>2015</u>	<u>2014</u>
Fully Insured Deposits	\$ 1,000,000	\$ 1,250,000
Uncollateralized	<u>369,495</u>	<u>33,643</u>
	<u>\$ 1,369,495</u>	<u>\$ 1,283,643</u>

### Note 3. CONCENTRATIONS

The Organization received approximately 51%, and 60% of its revenue from the County of Hawai'i as of June 30, 2015 and 2014, respectively. Continued County funding at present service levels is dependent upon economic conditions on the Island of Hawai'i and budgetary restraints experienced by the County. Reductions in this funding could affect the Organization's ability to continue as a going concern.

Funds received pursuant to the County of Hawai'i purchase of service agreement are for operating the County Animal Shelter and enforcing the County's animal control regulations. These funds are to be used in accordance with the agreement. Costs charged against the agreement are subject to review and acceptance by the County of Hawai'i.

### Note 4. LEASES

In December 2010 a copier was acquired through a 60-month non-cancelable lease agreement requiring monthly payments of \$1,246. The lease will expire in December 2015 and the current maturity of the lease is \$7,222.

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

2016	\$ 11,830
2017	\$ 4,608
2018	\$ 4,608
2019	\$ 4,224

## HAWAII ISLAND HUMANE SOCIETY

Notes to the Financial Statements  
June 30, 2015 and 2014

### Note 5. NET ASSETS

The Organization has conformed to FASB ASC 958-210-45-9, “*Not-for-Profit Entities, Classifications of Net Assets*,” and the Statement of Financial Accounting Standards formerly (SFAS) No. 117, “*Financial Statement of Not-for-Profit Organization*.” Accordingly, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Unrestricted net assets represent those assets whose usage is neither temporarily nor permanently restricted by donors. These revenues are used for the general operating expenditures of the Organization or for such other purposes as determined by the Board of Directors.

The Board of Directors has selected certain unrestricted net assets to be identified as Board Designated net assets for the Capital Campaign. Board Designated Net Assets at June 30, 2015 and 2014, were \$77,156 and \$178,445, respectively.

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

	2015	2014
Capital Campaign	\$ 1,049,638	\$ 378,027
Second Chance	126,127	150,463
Spay/Neuter	79,792	104,656
Katie Fund	59,973	50,648
Kona Kennels	55,451	55,450
Kea'au Kennels	44,636	44,311
Michi Haga	20,601	20,756
Education	19,865	15,881
Equine Fund	11,314	56,601
Waimea Kennels	1,704	1,229
Lava Flow	1,657	-
Wish List	609	1,068
Poi Dogs for Paradise	213	-
Feral Cats Sterilize	150	-
Total	\$ 1,471,730	\$ 879,090

Permanently restricted net assets are endowment funds restricted in perpetuity to continue the purpose of the Organization. Income generated by these assets can be used for activities as specified by the donor. At June 30, 2015 and 2014, permanently restricted net assets consisted of \$22,347 for the Spay/Neuter (S/N) program.

The Uniform Prudent Management of Institutional Funds Act (UPMIFA) applies to nonprofit organizations in Hawai‘i. UPMIFA updates the prudence standard for the management and investment of charitable funds, and it amends the provisions governing the release and modification of restrictions on charitable funds. Management has evaluated the provisions of the standard and has concluded that the adoption of UPMIFA in fiscal year 2015 and 2014 did not have a significant effect on the Organization’s financial statements.



## HAWAII ISLAND HUMANE SOCIETY

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### 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.

### 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, 2015 and 2014 are \$-0- and \$5,000, respectively. A number of volunteers have donated significant amounts of their time however no objective basis is available to measure the value of these services.

*In-kind Rent:* The building and land on which the Kona shelter is located belongs to the County of Hawai'i. The County provides the site at no cost to the Organization. This agreement must be renewed annually. The annual estimated value of the donated rent from the County of Hawai'i is \$25,200.

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

	<u>2015</u>	<u>2014</u>
Change in Net Assets	\$ 1,025,546	\$ 488,567
Adjustments to Reconcile:		
Depreciation	59,806	74,567
Loss on Disposal	3,217	-
Change in Accounts and Pledges Receivable	(521,214)	(24,887)
Change in Other Current Assets	(20,034)	34,990
Change in Deposits Other	200	(5,200)
Change in Accounts Payable	1,069	(22,710)
Change in Credit Cards	1,186	312
Change in Accrued Liabilities	<u>872</u>	<u>(43,976)</u>
Net Cash Provided by Operating Activities	<u>\$ 550,648</u>	<u>\$ 501,663</u>

### Note 9. RETIREMENT PLAN

The Hawaii Island Humane Society maintains an IRA retirement plan for all eligible employees whereby the Organization contributes 5% of each eligible employee's wages. Employees are considered eligible after they have been employed by the Organization for at least two years. For the years ending June 30, 2015 and 2014, the retirement plan expenses totaled \$40,602 and \$39,244, respectively.

## HAWAII ISLAND HUMANE SOCIETY

Notes to the Financial Statements  
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### Note 10. 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 it has 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. As a result in 2014, an allocation of S/N expenses of \$35,848 related to the County of Hawaii CAP program expenses has been reclassified.

The Organization also provides coupons free of charge under the County of Hawai'i S/N program. See Note 11.

### Note 11. S/N COUPON LIABILITY

The coupons sold through the S/N CAP program are redeemed by the patron when veterinary services are performed. Estimated amounts of \$2,120 and \$4,750 are recorded as a liability for the years ending June 30, 2015 and 2014, respectively, which represent the value of unredeemed coupons.

At June 30, 2015 and 2014 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 \$63,820 for 2015 and \$29,670 for 2014. No funds were received when these coupons were issued and a liability has not been recorded as the surgeries have yet to be performed.

### Note 12. INCOME TAXES

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 2015 and 2014.

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 2012.

## HAWAII ISLAND HUMANE SOCIETY

Notes to the Financial Statements  
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### Note 13. KEA'AU LAND

The Kea'au shelter is located on three acres of land owned by the Hawaii Island Humane Society. The land was acquired in February 1968 from W.H. Shipman, Limited for the amount of \$10. The value of the land at acquisition has not been reflected in the fixed assets of the Organization. At June 30, 2010 the assessed value of the land was approximately \$100,000, and was added to the capitalized assets.

### Note 14. HOLUALOA LAND AND BUILDING

The Organization purchased a 12-acre parcel with three existing buildings that will require renovation prior to occupancy on April 13, 2011. Depreciation will not be taken while construction is in process. At June 30, 2015 construction in progress is \$448,575.

### NOTE 15. LEASEHOLD IMPROVEMENTS

To provide enhanced quality care for animals, the Hawaii Island Humane Society has made various site improvements to the leased properties (see Note 3) including a dog park, puppy kennels, a horse shed, as well as complying with the *Americans with Disabilities Act* requirements. Total improvements to leased facilities are \$107,327 and \$102,633 for the years ending June 30, 2015 and 2014, respectively.

### 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. Pledge receivable is stated at net estimated realizable value. Pledge receivable consists of the following as of June 30:

	<u>2015</u>	<u>2014</u>
Gross Pledge Receivable	\$ 630,166	\$ 86,712
Present Value Allowance	<u>(25,026)</u>	<u>(3,112)</u>
Net Pledge Receivable	<u>\$ 605,140</u>	<u>\$ 83,600</u>
Amounts due in:		
Less than one year	\$ 255,166	\$ 33,600
One to three years	\$ 349,974	\$ 50,000

### NOTE 17. RELATED PARTY

A Board of Director member is also the owner of Alii Veterinary Hospital which the Hawaii Island Humane Society utilizes for veterinary care and also leases facilities. The total amount paid to Alii Veterinary Hospital during the years ending June 30, 2015 and 2014 were \$9,843 and \$7,884, respectively.

## HAWAII ISLAND HUMANE SOCIETY

Notes to the Financial Statements  
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### NOTE 18. SUBSEQUENT EVENTS

In preparing these financial statements, Management has evaluated events and transactions for potential recognition or disclosure through September 1, 2015, the date the financial statements were available for use.

### NOTE 19. RECLASSIFICATION

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