

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

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

**FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

# 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, 2018 and 2017, 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, 2018 and 2017, 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 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 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.

*Carbonaro CPAs + Management Group*

Hilo, Hawai'i  
October 22, 2018

HAWAII ISLAND HUMANE SOCIETY

**Statements of Financial Position**  
For the Years Ended June 30, 2018 and 2017

	<b>ASSETS</b>	
	2018	2017
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents (Note 2)	\$ 3,168,135	\$ 2,043,316
Other Current Assets		
Accounts Receivable	17,956	1,739
Pledge Receivable, net of Allowance (Note 18)	54,500	22,500
Prepaid Expense	12,202	14,009
Retail Inventory (Note 2)	12,140	12,140
Total Other Current Assets	96,798	50,388
Total Current Assets	3,264,933	2,093,704
<b>PROPERTY AND EQUIPMENT (Note 2)</b>		
Kea'au Land	100,000	100,000
Holualoa Land (Note 16)	452,646	452,646
Buildings	2,055,724	871,502
Vehicles	400,558	226,583
Equipment - Office	69,689	59,927
Operating Room Equipment	49,084	49,084
Leasehold Improvements (Note 17)	162,945	117,819
Construction In Progress (Note 16)	1,551,980	1,158,376
Miscellaneous Assets	21,954	21,954
	4,864,580	3,057,891
Accumulated Depreciation	(745,750)	(729,863)
Net Property and Equipment	4,118,830	2,328,028
<b>OTHER ASSETS</b>		
Investments (Note 4)	25,894	65,588
Deposits - Other	808	7,200
Total Other Assets	26,702	72,788
<b>TOTAL ASSETS</b>	<b>\$ 7,410,465</b>	<b>\$ 4,494,520</b>

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, 2018 and 2017

**LIABILITIES AND NET ASSETS**

	<u>2018</u>	<u>2017</u>
<b>CURRENT LIABILITIES</b>		
Accounts Payable	\$ 89,389	\$ 139,097
S/N Coupon and Other County Payables (Note 13)	3,371	2,120
Credit Cards	<u>2,611</u>	<u>2,236</u>
Total Current Liabilities	<u>95,371</u>	<u>143,453</u>
<b>OTHER CURRENT LIABILITIES</b>		
Accrued Wages	47,919	48,568
Accrued Vacation Payable	32,351	32,351
Accrued Payroll Taxes and Benefits	<u>18,406</u>	<u>6,031</u>
Total Other Current Liabilities	<u>98,676</u>	<u>86,950</u>
<b>TOTAL CURRENT LIABILITIES</b>	194,047	230,403
<b>NET ASSETS (Note 9)</b>		
Unrestricted	4,622,094	2,950,595
Board Designated	<u>77,156</u>	<u>77,156</u>
Total Unrestricted Net Assets	<u>4,699,250</u>	<u>3,027,751</u>
Temporarily Restricted	2,494,821	1,214,019
Permanently Restricted	<u>22,347</u>	<u>22,347</u>
Total Net Assets	<u>7,216,418</u>	<u>4,264,117</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 7,410,465</u>	<u>\$ 4,494,520</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, 2018

	Unrestricted	Restricted		2018
		Temporarily	Permanently	Total
<b>PUBLIC SUPPORT AND REVENUE</b>				
County of Hawai'i	\$ 2,081,625	\$ -	\$ -	\$ 2,081,625
Donated Services (Note 8)	4,150	-	-	4,150
Donations	205,142	3,003,390	-	3,208,532
Fundraising	250,300	-	-	250,300
Grants	-	275,000	-	275,000
Adoptions	140,900	-	-	140,900
S/N CAP Coupon Sales (Note 11)	1,677	-	-	1,677
Donated Rent (Note 8)	25,200	-	-	25,200
Sales	25,125	-	-	25,125
Cost of Goods Sold (Note 2)	(3,977)	-	-	(3,977)
Miscellaneous Revenue	8,103	-	-	8,103
Humane Shelter Services	12,593	-	-	12,593
Recycling	662	-	-	662
Gain on Sale of Asset	11,736	-	-	11,736
Net Assets Released from Restrictions	1,997,588	(1,997,588)	-	-
<b>Total Public Support and Revenue</b>	<b>4,760,824</b>	<b>1,280,802</b>	<b>-</b>	<b>6,041,626</b>
<b>EXPENSES</b>				
Program Expenses	2,659,886	-	-	2,659,886
Management and General	278,244	-	-	278,244
Fundraising Expenses	151,195	-	-	151,195
<b>Total Expenses</b>	<b>3,089,325</b>	<b>-</b>	<b>-</b>	<b>3,089,325</b>
<b>CHANGE IN NET ASSETS</b>	<b>\$ 1,671,499</b>	<b>\$ 1,280,802</b>	<b>\$ -</b>	<b>\$ 2,952,301</b>
NET ASSETS, BEGINNING OF YEAR	3,027,751	1,214,019	22,347	4,264,117
NET ASSETS, END OF YEAR	<u>\$ 4,699,250</u>	<u>\$ 2,494,821</u>	<u>\$ 22,347</u>	<u>\$ 7,216,418</u>

HAWAII ISLAND HUMANE SOCIETY  
**Statement of Activities and Change in Net Assets**  
For the Year Ended June 30, 2017

	Unrestricted	Restricted		2017 Total
		Temporarily	Permanently	
<b>PUBLIC SUPPORT AND REVENUE</b>				
County of Hawai'i	\$ 2,081,625	\$ -	\$ -	\$ 2,081,625
Donated Services (Note 8)	2,072	-	-	2,072
Donations	385,609	304,381	-	689,990
Adoptions	114,322	-	-	114,322
Fundraising	260,845	-	-	260,845
S/N CAP Coupon Sales (Note 13)	7,818	-	-	7,818
Sales	24,653	-	-	24,653
Cost of Goods Sold (Note 2)	(5,078)	-	-	(5,078)
Grants	90,506	47,000	-	137,506
Donated Rent (Note 8)	25,200	-	-	25,200
Humane Shelter Services	13,150	-	-	13,150
Miscellaneous Revenue	24,731	-	-	24,731
Recycling	1,383	-	-	1,383
Gain on Sale of Asset	2,500	-	-	2,500
Net Assets Released from Restrictions	774,223	(774,223)	-	-
<b>Total Public Support and Revenue</b>	<b>3,803,559</b>	<b>(422,842)</b>	<b>-</b>	<b>3,380,717</b>
<b>EXPENSES</b>				
Program Expenses	2,520,006	-	-	2,520,006
Management and General	264,330	-	-	264,330
Fundraising Expenses	130,307	-	-	130,307
<b>Total Expenses</b>	<b>2,914,643</b>	<b>-</b>	<b>-</b>	<b>2,914,643</b>
<b>CHANGE IN NET ASSETS</b>	<b>\$ 888,916</b>	<b>\$ (422,842)</b>	<b>\$ -</b>	<b>\$ 466,074</b>
NET ASSETS, BEGINNING OF YEAR	2,138,835	1,636,861	22,347	3,798,043
NET ASSETS, END OF YEAR	<u>\$ 3,027,751</u>	<u>\$ 1,214,019</u>	<u>\$ 22,347</u>	<u>\$ 4,264,117</u>



HAWAII ISLAND HUMANE SOCIETY

**Statement of Functional Expenses**  
For the Year Ended June 30, 2018

	Program Services	Supporting Services		2018 Total
		Management and General	Fundraising	
Salaries and Wages	\$ 1,141,503	\$ 128,259	\$ 12,826	\$ 1,282,588
Kennel Supplies, Food and Medicine	290,817	-	-	290,817
Employee Benefits	230,400	25,888	2,589	258,876
Surgery Programs and Supplies	149,042	13,845	-	162,887
Payroll Taxes	135,236	15,195	1,520	151,951
Fundraising Expense	-	-	125,613	125,613
Utilities	100,803	6,434	-	107,237
Repairs and Maintenance	59,775	32,187	-	91,962
Legal and Professional Services	65,580	23,042	-	88,622
Auto Expense	99,334	-	-	99,334
Insurance	66,727	4,259	-	70,986
Adoption Expense	51,240	-	-	51,240
Depreciation	36,637	-	-	36,637
Advertising	43,386	-	-	43,386
Office Supplies	29,706	7,427	-	37,133
Rent, including In-kind Rent (Note 8)	30,484	1,250	-	31,734
Network Expense	16,921	11,281	-	28,202
Animal Disposal	26,376	-	-	26,376
General Excise Tax and Other Taxes	12,988	-	4,564	17,552
Veterinary Care and Evidence Animals	17,041	-	-	17,041
Printing	14,868	-	783	15,651
Bank and Credit Card Fees	8,238	-	2,059	10,297
Other Expenses	6,184	1,358	-	7,542
Dues, Licenses, Subscriptions	3,987	3,008	-	6,995
Postage and Freight	2,899	2,761	1,243	6,903
Staff Meeting and Training	3,752	1,459	-	5,211
Uniforms	4,185	-	-	4,185
In-Kind - Service (Note 8)	4,150	-	-	4,150
Meals and Travel	3,108	592	-	3,700
Animal Control Equipment	2,933	-	-	2,933
Humane Education	1,584	-	-	1,584
<b>TOTAL EXPENSES</b>	<b>\$ 2,659,886</b>	<b>\$ 278,244</b>	<b>\$ 151,195</b>	<b>\$ 3,089,325</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, 2017

	Program Services	Supporting Services		2017 Total
		Management and General	Fundraising	
Salaries and Wages	\$ 1,114,016	\$ 125,170	\$ 12,517	\$ 1,251,703
Kennel Supplies, Food and Medicine	255,503	-	-	255,503
Employee Benefits	221,048	24,837	2,484	248,369
Surgery Programs and Supplies	158,072	14,684	-	172,756
Payroll Taxes	120,890	13,583	1,358	135,831
Fundraising Expense	-	-	104,647	104,647
Utilities	83,941	5,358	-	89,299
Repairs and Maintenance	43,017	23,163	-	66,180
Legal and Professional Services	72,665	25,531	-	98,196
Auto Expense	71,302	-	-	71,302
Insurance	66,436	4,241	-	70,677
Adoption Expense	40,454	-	-	40,454
Depreciation	42,713	-	-	42,713
Advertising	35,986	-	-	35,986
Office Supplies	26,692	6,673	-	33,365
Rent, including In-kind Rent (Note 8)	30,294	1,250	-	31,544
Network Expense	14,540	9,694	-	24,234
Animal Disposal	27,343	-	-	27,343
General Excise Tax and Other Taxes	13,343	-	4,688	18,031
Veterinary Care and Evidence Animals	12,666	-	-	12,666
Printing	17,488	-	920	18,408
Bank and Credit Card Fees	10,395	-	2,599	12,994
Other Expenses	12,881	2,827	-	15,708
Dues, Licenses, Subscriptions	3,145	2,372	-	5,517
Postage and Freight	2,552	2,430	1,094	6,076
Staff Meeting and Training	5,347	2,079	-	7,426
Uniforms	9,162	-	-	9,162
In-Kind - Service (Note 8)	2,072	-	-	2,072
Meals and Travel	2,295	437	-	2,732
Animal Control Equipment	2,228	-	-	2,228
Humane Education	1,521	-	-	1,521
<b>TOTAL EXPENSES</b>	<b>\$ 2,520,006</b>	<b>\$ 264,330</b>	<b>\$ 130,307</b>	<b>\$ 2,914,643</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, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Hawai'i County Funding	\$ 2,081,625	\$ 2,081,625
Retail Sales and Services to Public	437,401	327,452
Fundraising	250,300	260,845
S/N CAP Coupon Sales	2,928	5,774
Foundations and Other Donations	3,176,532	1,054,961
Other Cash Received	8,765	26,114
Cash Paid to Employees and Vendors	<u>(3,056,723)</u>	<u>(2,851,070)</u>
Net Cash Provided by Operating Activities (Note 10)	2,900,828	905,701
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from (Cash Used to Purchase) Investments	39,694	(30,393)
Proceeds from Asset Sale	11,736	2,500
Cash Used to Purchase Property and Equipment	(1,433,835)	(12,292)
Cash Used for Construction in Process	<u>(393,604)</u>	<u>(497,135)</u>
Net Cash Used by Investing Activities	(1,776,009)	(537,320)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net Cash Used by Financing Activities	<u>-</u>	<u>-</u>
<b>Net Increase in Cash for the Year</b>	<b>1,124,819</b>	<b>368,381</b>
CASH BALANCE, BEGINNING OF YEAR	<u>2,043,316</u>	<u>1,674,935</u>
CASH BALANCE, END OF YEAR	<u><u>\$ 3,168,135</u></u>	<u><u>\$ 2,043,316</u></u>
<b>Non-Cash Investing and Financing Activities</b>		
Non-Cash Items in Construction in Progress	\$ -	\$ 70,351

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, 2018 and 2017

	2018			2017		
	Animal Control	S/N CAP	Total	Animal Control	S/N CAP	Total
<b>Receipts:</b>						
County of Hawai'i Contracted Funds	\$ 1,860,900	\$ 220,725	\$ 2,081,625	\$ 1,860,900	\$ 220,725	\$ 2,081,625
Gain on Sale of Asset	521	-	521	2,500	-	2,500
<b>Total Receipts</b>	<b>1,861,421</b>	<b>220,725</b>	<b>2,082,146</b>	<b>1,863,400</b>	<b>220,725</b>	<b>2,084,125</b>
<b>Operating Expenses</b>						
Salaries and Wages	963,641	-	963,641	984,030	-	984,030
Surgery Programs and Supplies (Note 11)	-	223,022	223,022	-	217,895	217,895
Kennel Supplies, Food and Medicine	195,165	-	195,165	172,661	-	172,661
Employee Benefits	191,494	-	191,494	206,831	-	206,831
Payroll Taxes	104,705	-	104,705	106,314	-	106,314
Auto Expense	86,835	-	86,835	71,276	-	71,276
Utilities	84,931	-	84,931	71,275	-	71,275
Repairs and Maintenance	55,685	-	55,685	42,786	-	42,786
Insurance	55,010	-	55,010	60,185	-	60,185
Outside Services/Contract Labor	50,684	-	50,684	59,399	-	59,399
Animal Disposal	26,376	-	26,376	27,343	-	27,343
Advertising	19,665	-	19,665	10,387	-	10,387
Office Supplies	12,180	-	12,180	7,805	-	7,805
Network Expense	12,059	-	12,059	11,395	-	11,395
Office Equipment and Rentals	8,571	-	8,571	9,275	-	9,275
Bank and Credit Card Fees	5,599	-	5,599	3,190	-	3,190
Legal and Professional Services	5,561	-	5,561	5,886	-	5,886
Uniforms	4,168	-	4,168	8,644	-	8,644
Animal Control Equipment	2,933	-	2,933	1,271	-	1,271
Travel and Mileage	2,474	-	2,474	1,935	-	1,935
Staff Meeting and Training	2,348	-	2,348	5,208	-	5,208
Dues, Licenses, Subs, Taxes	2,088	-	2,088	1,515	-	1,515
Postage and Freight	1,761	-	1,761	1,309	-	1,309
Taxes, Property, Other	930	-	930	-	-	-
Surgical Supplies	499	-	499	-	-	-
Printing	155	-	155	247	-	247
Miscellaneous	-	-	-	9,671	-	9,671
Veterinary Care and Evidence Animals	-	-	-	75	-	75
<b>Total Operating Expenses</b>	<b>1,895,517</b>	<b>223,022</b>	<b>2,118,539</b>	<b>1,879,913</b>	<b>217,895</b>	<b>2,097,808</b>
Fixed Assets Purchased	-	-	-	12,293	-	12,293
<b>Excess Receipts Over (Under) Disbursements</b>	<b>\$ (34,096)</b>	<b>\$ (2,297)</b>	<b>\$ (36,393)</b>	<b>\$ (28,806)</b>	<b>\$ 2,830</b>	<b>\$ (25,976)</b>

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

# HAWAII ISLAND HUMANE SOCIETY

## Notes to the Financial Statements June 30, 2018 and 2017

### Note 1. ORGANIZATION

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

The Hawaii Island Humane Society is responsible for carrying out animal control for the County of Hawai'i, for the entire island of Hawai'i. They maintain shelters in 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, 2018 and 2017, were \$3,977 and \$5,078, 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.

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

*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.

# HAWAII ISLAND HUMANE SOCIETY

Notes to the Financial Statements  
June 30, 2018 and 2017

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

*Cash and Cash Equivalent 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>2018</u>	<u>2017</u>
Fully Insured Deposits	\$ 836,548	\$ 1,221,108
Uninsured and Uncollateralized	<u>2,331,587</u>	<u>822,208</u>
	<u>\$ 3,168,135</u>	<u>\$ 2,043,316</u>

## Note 3. CONCENTRATIONS

The Organization received approximately 62% of its revenue from the County of Hawai'i as of June 30, 2018 and 2017, 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. 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, 2018 and 2017

#### 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.

June 30, 2018				
Assets	Total	Quoted Prices: Level 1	Significant Other Inputs: Level 2	Significant Non- Observable Inputs: Level 3
Certificate of Deposit	\$ 24,204	\$ 24,204	\$ -	\$ -
Annuity Contracts*	1,690	-	-	1,690
Mutual Funds	-	-	-	-
Total	\$ 25,894	\$ 24,204	\$ -	\$ 1,690
June 30, 2017				
Assets	Total	Quoted Prices: Level 1	Significant Other Inputs: Level 2	Significant Non- Observable Inputs: Level 3
Certificate of Deposit	\$ 24,038	\$ 24,038	\$ -	\$ -
Annuity Contracts*	5,693	-	-	5,693
Mutual Funds	35,857	35,857	-	-
Total	\$ 65,588	\$ 59,895	\$ -	\$ 5,693

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

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

	Level 3 2018	Level 3 2017
Balance Beginning of Year	\$ 5,693	\$ 11,336
Capital Distributions	43	(5,643)
Net Unrealized and Realized Losses	(4,046)	-
Balance Ending of Year	\$ 1,690	\$ 5,693

#### NOTE 5. SUBSEQUENT EVENTS

In preparing these financial statements, Management has evaluated events and transactions for potential recognition or disclosure through October 22, 2018, the date the financial statements were available for use.

# HAWAII ISLAND HUMANE SOCIETY

Notes to the Financial Statements  
June 30, 2018 and 2017

## Note 6. LEASES

In June 2015, a 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:

2019	\$ 12,365
2020	\$ 8,136
2021	\$ 6,780

The Organization leases space from Parker Ranch for the Waimea facilities. The future minimum lease payments are \$12,000 and \$6,000 for the years ending June 30, 2019 and 2020, respectively.

## Note 7. 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 8. 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, 2018 and 2017 are \$4,150 and \$2,072, 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 9. 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, 2018 and 2017, were \$77,156.



## HAWAII ISLAND HUMANE SOCIETY

### Notes to the Financial Statements June 30, 2018 and 2017

#### Note 9. NET ASSETS- continued

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:

	2018	2017
Capital Campaign	\$ 1,968,562	\$ 741,529
Spay/Neuter	181,163	81,012
Second Chance	145,605	147,153
Kea'au Kennels	67,424	59,233
Katie Fund	49,813	47,543
Lava Flow	26,215	1,657
Equine Fund	24,983	21,253
Michi Haga	19,479	19,829
Education	8,249	23,721
Waimea Kennels	3,328	11,749
Kona Kennels	-	59,340
Total	\$ 2,494,821	\$ 1,214,019

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, 2018 and 2017, 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 2018, and 2017, did not have a significant effect on the Organization's financial statements.

#### Note 10. RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES

	2018	2017
Change in Net Assets	\$ 2,952,301	\$ 466,074
Adjustments to Reconcile:		
Depreciation	36,637	42,713
Loss/(Gain) on Disposal	(11,736)	(2,500)
Adjustments to Fixed Assets	-	-
Change in Accounts and Pledges Receivable	(48,217)	402,792
Change in Other Current Assets	1,807	(4,770)
Change in Deposits Other	6,392	(400)
Change in Accounts Payable	(49,708)	(499)
Change in Credit Cards	375	657
Change in Accrued Liabilities	12,977	1,634
Net Cash Provided by Operating Activities	\$ 2,900,828	\$ 905,701

## HAWAII ISLAND HUMANE SOCIETY

### Notes to the Financial Statements June 30, 2018 and 2017

#### Note 11. 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, 2018 and 2017, the retirement plan expenses totaled \$41,264 and \$36,559, respectively.

#### 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 provides coupons free of charge under the County of Hawai'i S/N program. See Note 13.

#### Note 13. 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 \$3,371 and \$2,120 are recorded as a liability for the years ending June 30, 2018 and 2017, respectively, which represent the value of unredeemed coupons.

At June 30, 2018 and 2017, 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 \$35,520 and \$31,645 at June 30, 2018 and 2017, respectively. 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 14. 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

# HAWAII ISLAND HUMANE SOCIETY

## Notes to the Financial Statements June 30, 2018 and 2017

### Note 14. INCOME TAXES- continued

greater than 50% likelihood of being realized upon ultimate settlement. There were no unrecognized tax benefits identified or recorded as liabilities for 2018 and 2017.

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 2015.

### Note 15. RECLASSIFICATION

Certain items on the 2017 Statement of Activities and Changes in Net Assets have been reclassified to conform with 2018 presentation. The reclassification had no effect on Net Assets.

### Note 16. 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, 2018, construction in progress is \$1,551,980 and the project is expected to be completed by December 31, 2019 for a total cost of \$12,000,000.

### NOTE 17. LEASEHOLD IMPROVEMENTS

To provide enhanced quality care for animals, the Hawaii Island Humane Society has made various site improvements to leased properties including a dog park, puppy kennels, a horse shed, as well as complying with the *Americans with Disabilities Act* requirements. Total improvements to leased facilities are \$162,945 and \$117,819 for the years ending June 30, 2018 and 2017, respectively.

### NOTE 18. 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>2018</u>	<u>2017</u>
Gross Pledge Receivable	\$ 54,500	\$ 22,500
Present Value Allowance	-	-
Net Pledge Receivable	<u>\$ 54,500</u>	<u>\$ 22,500</u>
Amounts due in:		
Less than one year	\$ 54,500	\$ 22,500
One to three years	\$ -	\$ -

## HAWAII ISLAND HUMANE SOCIETY

Notes to the Financial Statements  
June 30, 2018 and 2017

### NOTE 19. 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, 2018 and 2017, were \$7,628 and \$11,312, respectively.

The husband of an executive committee Board of Directors member is the president of Tinguely Development, Inc. This company is the project manager for the Hawaii Island Humane Society's construction in progress for the development of their new facility located in Keahou, Hawaii.

### Note 20. RECENT ACCOUNTING PRONOUNCEMENTS

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, Presentation of Financial Statements for Not-For-Profit Entities. The standard makes improvements to the information provided in financial statements and accompanying notes of not-for-profit entities. The amendments set forth the FASB's improvements to net asset classification requirements and the information presented about a not-for-profit entity's liquidity, financial performance, and cash flows. ASU 2016-14 is effective for annual reporting periods beginning after December 31, 2017, but early adoption is permitted. The provisions are effective for an Organization's fiscal year ending June 30, 2019. Management is currently evaluating the impact that the adoption of these provisions will have on the financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases, which supersedes FASB Accounting Standards Codification (ASC) Topic 840, Leases, and makes other conforming amendments to U.S. GAAP. ASU 2016-02, requires, among other changes to the lease accounting guidance, lessees to recognize most leases on the balance sheet via a right-of-use asset and lease liability as well as additional qualitative and quantitative disclosures. ASU 2016-02 is effective for the Organization's fiscal years beginning December 15, 2019, but permits early adoption, and mandates a modified retrospective transition method. The provisions are effective for the Organization's fiscal year ending June 30, 2021. Management is currently evaluating the impact that the adoption of these provisions will have on the financial statements, but expects ASU 2016-02 to add significant right-of-use assets and lease liabilities to the statement of financial position.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash, which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. As a result, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The new standard amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted. The provisions are effective for the Organization's fiscal year ending June 30, 2021. The amendments should be applied using a retrospective transition method to each period presented. Management is currently evaluating the impact that the adoption of these provisions will have on the financial statements.