



**HAWAIIAN HUMANE SOCIETY**

Financial Statements

June 30, 2019 and 2018

(With Independent Auditors' Report Thereon)



KPMG LLP  
Suite 2100  
1003 Bishop Street  
Honolulu, HI 96813-6400

## Independent Auditors' Report

The Board of Directors  
Hawaiian Humane Society:

We have audited the accompanying financial statements of Hawaiian Humane Society, which comprise the statements of financial position as of June 30, 2019 and 2018, the related statements of activities, 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 U.S. generally accepted accounting principles; 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.

### *Auditors' 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 audit 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 auditors' 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 opinion.

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hawaiian Humane Society as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.



*Emphasis of Matter*

As discussed in note 1 to the financial statements, effective July 1, 2018, the Hawaiian Humane Society adopted new accounting guidance Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not for Profit Entities*. Our opinion is not modified with respect to this matter.

KPMG LLP

Honolulu, Hawaii  
November 18, 2019

**HAWAIIAN HUMANE SOCIETY**

Statements of Financial Position

June 30, 2019 and 2018

<b>Assets</b>	<b>2019</b>	<b>2018</b>
Cash	\$ 10,832,280	8,474,823
Prepaid expenses and other	261,421	229,125
Contributions receivable, net	6,843,337	7,585,225
Investments	9,063,942	10,531,383
Property and equipment:		
Building and building improvements, less accumulated depreciation of \$5,428,184 and \$4,791,882 in 2019 and 2018, respectively	13,949,584	11,897,313
Furniture, fixtures, and equipment, less accumulated depreciation of \$1,717,619 and \$1,516,345 in 2019 and 2018, respectively	479,668	474,874
Land	756,632	756,632
Construction in progress	1,124,356	3,264,743
Property and equipment, net	16,310,240	16,393,562
Beneficial interest in perpetual trusts	1,592,153	1,585,069
Total assets	\$ 44,903,373	44,799,187
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable	\$ 426,629	951,084
Deferred revenue	214,920	87,646
Accrued vacation	110,476	172,863
Other liabilities	320,028	377,027
Total liabilities	1,072,053	1,588,620
Net assets:		
Without donor restrictions	33,382,272	31,446,833
With donor restrictions	10,449,048	11,763,734
Total net assets	43,831,320	43,210,567
Total liabilities and net assets	\$ 44,903,373	44,799,187

See accompanying notes to financial statements.

**HAWAIIAN HUMANE SOCIETY**

Statement of Activities

Year ended June 30, 2019

	<b>Without donor restrictions</b>	<b>With donor restrictions</b>	<b>Total</b>
Operating public support and revenue:			
Public support:			
Contributions, special events, bequests, and grants	\$ 4,331,057	778,790	5,109,847
Adoption fees	332,201	—	332,201
Sale of supplies and promotional items	159,247	—	159,247
Servicing of animals – airport facility	131,100	—	131,100
Clinic fees	381,149	—	381,149
Animal pick-up and handling fees	97,054	—	97,054
Other	12,358	—	12,358
Total public support	5,444,166	778,790	6,222,956
City and County of Honolulu – contractual services	4,107,104	—	4,107,104
Net assets released from restrictions – satisfaction of program restrictions	2,100,560	(2,100,560)	—
Total operating public support and revenue	11,651,830	(1,321,770)	10,330,060
Operating expenses:			
Program services:			
Animal control and spay/neuter	4,356,516	—	4,356,516
Animal home	3,534,183	—	3,534,183
Total program services	7,890,699	—	7,890,699
Supporting services:			
Management and general	1,488,252	—	1,488,252
Fund-raising	755,125	—	755,125
Total supporting services	2,243,377	—	2,243,377
Total operating expenses	10,134,076	—	10,134,076
Change in net assets from operations	1,517,754	(1,321,770)	195,984
Other revenue:			
Investment return, net	417,685	—	417,685
Change in value of beneficial interest in perpetual trusts	—	7,084	7,084
Other revenue, net	417,685	7,084	424,769
Change in net assets	1,935,439	(1,314,686)	620,753
Net assets at beginning of year	31,446,833	11,763,734	43,210,567
Net assets at end of year	\$ 33,382,272	10,449,048	43,831,320

See accompanying notes to financial statements.

**HAWAIIAN HUMANE SOCIETY**

Statement of Activities

Year ended June 30, 2018

	<b>Without donor restrictions</b>	<b>With donor restrictions</b>	<b>Total</b>
Operating public support and revenue:			
Public support:			
Contributions, special events, bequests, and grants	\$ 3,930,228	1,996,819	5,927,047
Adoption fees	363,743	—	363,743
Sale of supplies and promotional items	144,651	—	144,651
Servicing of animals – airport facility	144,420	—	144,420
Clinic fees	232,130	—	232,130
Animal pick-up and handling fees	86,462	—	86,462
Other	9,994	—	9,994
Total public support	4,911,628	1,996,819	6,908,447
City and County of Honolulu – contractual services	3,943,270	—	3,943,270
Net assets released from restrictions – satisfaction of program restrictions	97,021	(97,021)	—
Total operating public support and revenue	8,951,919	1,899,798	10,851,717
Operating expenses:			
Program services:			
Animal control and spay/neuter	3,944,623	—	3,944,623
Animal home	2,913,050	—	2,913,050
Total program services	6,857,673	—	6,857,673
Supporting services:			
Management and general	1,017,680	—	1,017,680
Fund-raising	743,339	—	743,339
Total supporting services	1,761,019	—	1,761,019
Total operating expenses	8,618,692	—	8,618,692
Change in net assets from operations	333,227	1,899,798	2,233,025
Other revenue:			
Gain on termination of pension plan	463,756	—	463,756
Investment return, net	441,570	—	441,570
Change in value of beneficial interest in perpetual trusts	—	32,298	32,298
Other revenue, net	905,326	32,298	937,624
Change in net assets	1,238,553	1,932,096	3,170,649
Net assets at beginning of year	30,208,280	9,831,638	40,039,918
Net assets at end of year	\$ 31,446,833	11,763,734	43,210,567

See accompanying notes to financial statements.

**HAWAIIAN HUMANE SOCIETY**

Statement of Functional Expenses

Year ended June 30, 2019

	<u>Program services</u>		<u>Supporting services</u>		<u>Total</u>
	<u>Animal control and spay/neuter</u>	<u>Animal home</u>	<u>Management and general</u>	<u>Fund-raising</u>	
Salaries and wages	\$ 2,190,744	1,299,883	722,945	222,566	4,436,138
Employee benefits and payroll taxes	537,782	287,472	119,246	48,004	992,504
Operating supplies	254,423	297,373	—	—	551,796
Veterinarian services – spay/neuter	433,125	71,134	—	—	504,259
Repairs and maintenance	139,532	117,828	12,195	—	269,555
Media and public awareness	2,469	128,863	10,820	—	142,152
Printing and publications	7,476	89,468	264	318,173	415,381
Motor vehicle	92,507	12,083	—	10	104,600
Utilities	136,723	116,379	12,059	—	265,161
Professional services	157,539	68,961	382,085	34,521	643,106
Office supplies and postage	36,215	38,529	3,283	20,563	98,590
Insurance	92,783	81,828	8,888	—	183,499
Animal care food and supplies	52,147	21,713	—	—	73,860
IT and communications	78,544	100,171	6,094	27,061	211,870
Cruelty case, out-of-pocket	126	—	—	—	126
Pet supplies and promotional items	—	58,479	—	—	58,479
Other	65,071	61,580	134,547	84,227	345,425
Total expenses before depreciation	4,277,206	2,851,744	1,412,426	755,125	9,296,501
Depreciation	79,310	682,439	75,826	—	837,575
Total operating expenses	\$ <u>4,356,516</u>	<u>3,534,183</u>	<u>1,488,252</u>	<u>755,125</u>	<u>10,134,076</u>

See accompanying notes to financial statements.

**HAWAIIAN HUMANE SOCIETY**

Statement of Functional Expenses

Year ended June 30, 2018

	<u>Program services</u>		<u>Supporting services</u>		<u>Total</u>
	<u>Animal control and spay/neuter</u>	<u>Animal home</u>	<u>Management and general</u>	<u>Fund-raising</u>	
Salaries and wages	\$ 2,044,881	1,103,243	561,908	241,948	3,951,980
Employee benefits and payroll taxes	521,723	251,834	103,768	57,049	934,374
Operating supplies	209,698	228,967	—	—	438,665
Veterinarian services – spay/neuter	443,340	82,778	—	—	526,118
Repairs and maintenance	148,013	119,715	12,296	—	280,024
Media and public awareness	5,050	122,276	19,801	—	147,127
Printing and publications	8,509	104,482	527	346,827	460,345
Motor vehicle	72,555	18,198	—	263	91,016
Utilities	111,939	95,787	9,948	—	217,674
Professional services	109,881	56,856	187,750	16,365	370,852
Office supplies and postage	20,608	19,497	1,594	22,372	64,071
Insurance	73,195	63,887	6,709	—	143,791
Animal care food and supplies	35,913	15,735	—	—	51,648
IT and communications	45,240	56,595	3,584	13,125	118,544
Cruelty case, out-of-pocket	752	—	—	—	752
Pet supplies and promotional items	—	51,705	—	—	51,705
Other	26,249	26,183	54,760	45,390	152,582
Total expenses before depreciation	3,877,546	2,417,738	962,645	743,339	8,001,268
Depreciation	67,077	495,312	55,035	—	617,424
Total operating expenses	\$ <u>3,944,623</u>	<u>2,913,050</u>	<u>1,017,680</u>	<u>743,339</u>	<u>8,618,692</u>

See accompanying notes to financial statements.



**HAWAIIAN HUMANE SOCIETY**

Statements of Cash Flows

Years ended June 30, 2019 and 2018

	<b>2019</b>	<b>2018</b>
Cash flows from operating activities:		
Change in net assets	\$ 620,753	3,170,649
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	837,575	617,424
Net realized and unrealized gain on investments	(186,016)	(289,452)
Change in value of beneficial interest in perpetual trusts	(7,084)	(32,298)
Contributed land	—	(6,632)
Contributions restricted for long-term investment	(1,055,000)	(886,845)
Gain on termination of pension plan	—	(463,756)
Pension liability	—	(915,220)
Changes in operating assets and liabilities:		
Contributions receivable, net	741,888	(675,796)
Prepaid expenses and other	(32,296)	(81,724)
Accounts payable	(524,455)	77,527
Deferred revenue	127,274	(104,479)
Accrued vacation	(62,387)	(20,134)
Other liabilities	(56,999)	334,753
Net cash provided by operating activities	403,253	724,017
Cash flows from investing activities:		
Purchases of investments	(4,847,234)	(18,638,706)
Proceeds from sale of investments	6,500,691	18,953,043
Purchases of property and equipment	(754,253)	(2,601,522)
Net cash provided by (used in) investing activities	899,204	(2,287,185)
Cash flow from financing activities:		
Proceeds from contributions restricted for investment in land, buildings, and equipment	1,055,000	886,845
Net cash provided by financing activities	1,055,000	886,845
Net increase (decrease) in cash	2,357,457	(676,323)
Cash at beginning of year	8,474,823	9,151,146
Cash at end of year	\$ 10,832,280	8,474,823
Supplemental disclosure of noncash operating and investing activities:		
Accrued liabilities associated with construction costs	\$ —	342,365

See accompanying notes to financial statements.

## HAWAIIAN HUMANE SOCIETY

### Notes to Financial Statements

June 30, 2019 and 2018

#### (1) Summary of Significant Accounting Policies

##### (a) General

Hawaiian Humane Society (the Society), established in 1883 and incorporated in 1920, is a private, not-for-profit organization whose mission is to promote the human-animal bond and the humane treatment of all animals. The Society works to improve the welfare of animals through education, legislation, and prevention on the island of Oahu, Hawaii. The Society accomplishes its mission by sheltering animals, adopting homeless animals, coordinating humane education, and promoting the passage of laws that protect animals. The City and County of Honolulu (the City) provides funding to the Society by means of a contract to furnish, manage, operate and maintain a shelter for the care and control of stray animals and to receive and respond to requests from the public for animal related issues; provide assistance, initiate investigations, provide education and enforcement.

##### (b) Financial Statement Presentation

The financial statements of the Society have been prepared on the accrual basis. Net assets and revenues, gains and other support, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Society and changes therein are classified and reported as follows:

**Net assets without donor restrictions** – Net assets that are not subject to donor-imposed stipulations and may be expended for any purpose in performing the primary objectives of the Society. These net assets may be used at the discretion of the Society's management.

**Net assets with donor restrictions** – Net assets subject to stipulations imposed by donors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Society or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

##### (c) Investments

Investments are stated at fair value based on quoted market prices with unrealized gains and losses included in the statements of activities.

Gains and losses on investments are reported in the statements of activities as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulations or by law.

##### (d) Property and Equipment

Land, buildings, and equipment are capitalized at cost, if purchased, or at fair market value at the date of the donation.

The Society reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Society reports expirations of donor restrictions when the acquired long-lived assets are placed in service.

## HAWAIIAN HUMANE SOCIETY

### Notes to Financial Statements

June 30, 2019 and 2018

Depreciation of long-lived assets is calculated on the straight-line basis over estimated useful lives as follows:

	<u>Years</u>
Buildings and building improvements	30–40
Furniture, fixtures, and equipment	3–27

The Society completed construction on its spay neuter clinic, and it was placed into service in October 2018.

**(e) Contributed Services**

A number of volunteers have made contributions of time to the Society's adoption, animal care and clinic, education, and fund development departments and also for community events and clerical services. Contribution of services is recognized if the services received create or enhance nonfinancial assets or require specialized skills that would typically need to be purchased if not provided by donation. No amounts have been recognized in the financial statements for the year ended June 30, 2019 or 2018.

**(f) Contributions**

Contributions are recorded in the period received. Unconditional promises to give (contributions receivable) that are expected to be collected within one year are reported at net realizable value. Contributions receivable that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using interest rates commensurate with fair value for similar instruments applicable to the years in which the promises are received. Amortization of the discounts is included in contributions income. Conditional contributions are recorded at their estimated fair value in the period the conditions are met or in the period received if there is only a remote likelihood that those conditions will not be met.

The Society reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

**(g) Beneficial Interest in Perpetual Trusts**

The Society is the beneficiary of certain perpetual trusts held and administered by others. The present values of the estimated future cash receipts from the trusts are recognized as assets and contribution revenue at the dates the trusts are established. Distributions from the trusts are recorded as investment return, and the carrying value of the assets is adjusted for changes in the estimates of future receipts.

## HAWAIIAN HUMANE SOCIETY

### Notes to Financial Statements

June 30, 2019 and 2018

The Society receives a percentage of the trust income. The trusts are irrevocable, and the trust corpus is to remain in perpetuity. The income received is unrestricted and, accordingly, is recorded in net assets without donor restrictions. The Society's proportionate share of income generated and received from these trusts of \$200,359 and \$178,630 has been reflected in the statement of activities for the years ended June 30, 2019 and 2018, respectively.

#### **(h) Income Taxes**

The Society is an organization exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and is generally not subject to federal income taxes. However, the Society is subject to income taxes on any income that is derived from a trade or business, regularly carried on, and not in furtherance of the purposes for which it was granted exemption. No income tax provision has been recorded as the income, if any, from any unrelated trade or business, in the opinion of management, is not material to the financial statements taken as a whole.

#### **(i) Long-Lived Assets**

In accordance with *Impairment or Disposal of Long-Lived Assets* subsections of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 360, *Property, Plant, and Equipment*, long-lived assets, such as property, plant, and equipment, and purchased intangibles subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset be tested for possible impairment, the Society first compares undiscounted cash flows expected to be generated by an asset to the carrying value of the asset. If the carrying value of the long-lived asset is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques, including discounted cash flow models, quoted market values, and third-party independent appraisals, as considered necessary.

#### **(j) Pension Plan**

The Society has a noncontributory defined-benefit pension plan covering employees upon their retirement. The benefits are based on age, years of service, and level of compensation. The plan is closed to new participants after June 30, 2013, and the accrual of benefits for all participants is frozen after June 30, 2013. See note 5 to the financial statements for information regarding the pension plan termination.

The Society records annual amounts relating to its pension plan based on calculations that incorporate various actuarial and other assumptions, including discount rate, mortality, assumed rates of return, and compensation increases. The Society reviews its assumptions on an annual basis and makes modifications to the assumptions based on current rates and trends when it is appropriate to do so. The effect of modifications to those assumptions is recorded in its changes in unrestricted net assets and amortized to net periodic cost over future periods. The Society believes that the assumptions utilized in recording its obligations under its plan are reasonable based on its experience and market conditions. Net periodic costs are recognized as employees render the services necessary to earn the pension benefit.

## HAWAIIAN HUMANE SOCIETY

### Notes to Financial Statements

June 30, 2019 and 2018

#### **(k) Liquidity and Availability**

The following represents the Society's financial assets at June 30, 2019:

	<u>2019</u>
Financial assets at year-end:	
Cash	\$ 10,832,280
Contribution receivable to be received within one year	2,450,364
Investments	9,063,942
Beneficial interest in perpetual trusts	<u>1,592,153</u>
Total financial assets	23,938,739
Less amounts not available to be used within one year:	
Net assets with donor restrictions	(10,449,048)
Less net assets with purpose restrictions to be met in less than a year	<u>1,458,010</u>
Financial assets available to meet general expenditures over the next 12 months	<u>\$ 14,947,701</u>

#### **(l) Use of Estimates**

The preparation of the financial statements in accordance with U.S. generally accepted accounting principles requires management of the Society to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Significant items subject to such estimates and assumptions include the valuation of contributions and other receivables, investments, beneficial interest in perpetual trusts, and assets and obligations related to employee benefits. Actual results could differ from those estimates.

#### **(m) Fair Value Measurements**

The Society applies the provisions of FASB ASC Topic 820, *Fair Value Measurement*, for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the financial statements on a recurring basis. ASC Topic 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC Topic 820 also establishes a framework for measuring fair value and expands disclosures about fair value measurements (note 2).

#### **(n) Recently Adopted Accounting Standards**

In August 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not for Profit Entities*. This guidance reduces the number of net asset classes presented on the balance sheet from three to two; requires presentation of expenses by their functional and natural classification in one location in the financial statements; requires investment income and expenses, gain, and losses to be aggregated as a single amount in the statement of activities. The standard no longer requires disclosure of the amount of investment expenses or the component of gross investment return; and requires quantitative information about management of liquid resources

## HAWAIIAN HUMANE SOCIETY

### Notes to Financial Statements

June 30, 2019 and 2018

and availability of financial assets to meet cash needs within one year of the balance sheet date. The standard is effective for the Society for the annual period beginning after December 15, 2017. The Society adopted this standard effective July 1, 2018, and the presentation in the financial statements was adjusted accordingly.

#### **(o) Recently Issued Accounting Standards**

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. Under the new guidance, lessees will be required to recognize the following for all leases (with the exception of short-term leases): 1) a lease liability, which is the present value of a lessee's obligation to make lease payments and 2) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Lessor accounting under the new guidance remains largely unchanged as it is substantially equivalent to existing guidance for sales-type leases, direct financing leases, and operating leases. Leveraged leases have been eliminated, although lessors can continue to account for existing leveraged leases using the current accounting guidance. Other limited changes were made to align lessor accounting with the lessee accounting model and the new revenue recognition standard. All entities will classify leases to determine how to recognize lease-related revenue and expense. Quantitative and qualitative disclosures will be required by lessees and lessors to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. The intention is to require enough information to supplement the amounts recorded in the financial statements so that users can understand more about the nature of an entity's leasing activities. The new standard is effective for the Society for annual periods in fiscal years beginning after December 15, 2019. The Society is currently evaluating the potential impact of adopting this guidance on the financial statements.

In June 2018, the FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The new standard provides clarification in characterizing grants and similar contracts with resource providers as either exchange transactions or contributions and in determining whether a contribution is conditional when applying the revenue recognition guidance. The standard is effective for the Society for the annual periods in fiscal years beginning after December 15, 2018. The Society is currently evaluating the effect that the adoption of this ASU will have on the financial statements.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*. The new standard eliminates, amends, and adds disclosure requirements for fair value measurements. These amendments are expected to reduce costs for preparers while providing more decision-useful information for financial statement users. The standard is effective for the Society for the annual periods in fiscal years beginning after December 15, 2019. The Society is currently evaluating the effect that the adoption of this ASU will have on the financial statements.

## HAWAIIAN HUMANE SOCIETY

### Notes to Financial Statements

June 30, 2019 and 2018

#### (2) Fair Value Measurements

##### (a) Fair Value of Financial Instruments

The fair values of financial instruments represent management's best estimates of the amounts that would be received to sell those assets or that would be paid to transfer those liabilities in an orderly transaction between market participants at that date. Those fair value measurements maximize the use of observable inputs. However, in situations where there is little, if any, market activity for the asset or liability at the measurement date, the fair value measurement reflects the Society's own judgments about the assumptions that market participants would use in pricing the asset or liability. Those judgments are developed by the Society based on the best information available in the circumstances.

The reported amounts of cash, accounts payable, deferred revenue, and other liabilities approximate fair value because of the short maturity of these instruments.

The fair value of contributions receivable is based on the present value of their estimated future cash flows. The discount rate used is computed using interest rates commensurate with market rates for similar instruments applicable to the years in which the promises are received.

##### (b) Fair Value Hierarchy

The Society determines fair value measurements in accordance with ASC Subtopic 820-10, *Fair Value Measurement – Overall*. ASC Subtopic 820-10 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 – Valuation for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.
- Level 2 – Valuation for assets and liabilities traded in less active dealer or broker markets based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.
- Level 3 – Valuations for assets and liabilities that are derived from other valuation methodologies, including discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker-traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest-level input that is significant to the fair value measurement in its entirety.

## HAWAIIAN HUMANE SOCIETY

### Notes to Financial Statements

June 30, 2019 and 2018

The following tables present assets that are measured at fair value on a recurring basis at June 30, 2019 and 2018:

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
June 30, 2019:				
Investments:				
Cash	\$ 186,447	—	—	186,447
Equity securities:				
U.S. equity securities	2,128,617	—	—	2,128,617
Debt securities:				
U.S. treasury obligations	1,327,261	4,313	—	1,331,574
Corporate securities	—	87,555	—	87,555
Mortgage backed securities	—	74,203	—	74,203
Exchange traded funds:				
Equity securities	2,436,594	—	—	2,436,594
Debt securities	509,901	—	—	509,901
Mutual funds:				
Equity securities	106,213	—	—	106,213
Debt securities	1,613,055	—	—	1,613,055
Other	589,783	—	—	589,783
Total	<u>\$ 8,897,871</u>	<u>166,071</u>	<u>—</u>	<u>9,063,942</u>
Beneficial interest in perpetual trusts	\$ —	1,592,153	—	1,592,153

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
June 30, 2018:				
Investments:				
Cash	\$ 209,498	—	—	209,498
Certificates of deposit	—	742,105	—	742,105
Equity securities:				
U.S. equity securities	1,928,320	—	—	1,928,320
Debt securities:				
U.S. treasury obligations	1,994,147	—	—	1,994,147
Exchange traded funds:				
Equity securities	2,510,939	—	—	2,510,939
Debt securities	1,545,711	—	—	1,545,711



## HAWAIIAN HUMANE SOCIETY

### Notes to Financial Statements

June 30, 2019 and 2018

	<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant other observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>	<u>Total</u>
Mutual funds:				
Equity securities	\$ 100,727	—	—	100,727
Debt securities	1,001,847	—	—	1,001,847
Other	498,089	—	—	498,089
Total	<u>\$ 9,789,278</u>	<u>742,105</u>	<u>—</u>	<u>10,531,383</u>
Beneficial interest in perpetual trusts	\$ —	1,585,069	—	1,585,069

For the year ended June 30, 2019 or 2018, there were no transfers between Level 1, Level 2, or Level 3 of the fair value hierarchy.

### (3) Contributions Receivable

At June 30, 2019 and 2018, contributions receivable are presented net of discount for present value of \$774,527 and \$830,999, respectively. Discount rates used to determine the present value of the contributions receivable ranged from 5.00% to 3.25%. As of June 30, 2019 and 2018, the allowance for doubtful accounts was \$0.

The contributions receivable amounts to be collected subsequent to June 30, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Amounts to be collected in:		
Less than one year	\$ 2,450,364	1,571,000
One year to eight years	<u>5,167,500</u>	<u>6,845,224</u>
Total	<u>\$ 7,617,864</u>	<u>8,416,224</u>

### (4) Bank Lines of Credit

The Society has an available \$1,000,000 line of credit, secured by the Society's cash, cash equivalents, and investments. The line of credit does not expire, as long as the Society maintains sufficient pledged capital. At June 30, 2019, the Society had \$7,853,056 in pledged capital related to the line of credit. There were no outstanding borrowings as of June 30, 2019 or 2018.

### (5) Pension Plan

The Society had a noncontributory, defined-benefit pension plan covering substantially all of its employees. The plan had been previously frozen. Pension benefits were based primarily on years of service and compensation levels. Actuarial gains and losses were generally amortized over the average remaining service life of the Society's active employees.

## HAWAIIAN HUMANE SOCIETY

### Notes to Financial Statements

June 30, 2019 and 2018

On March 14, 2016, the board of directors approved the termination of the plan, effective July 31, 2016. Termination of pension plans also requires completion of specific steps, as prescribed by the Pension Benefit Guaranty Corporation (PBGC) and approval from the Internal Revenue Service (IRS). The Society completed the required steps with the PBGC during 2017 and received an IRS determination letter, dated September 26, 2017, indicating approval of the plan termination.

In January 2018, the Society contributed a funding shortfall of \$911,287 prior to the final distribution of assets. The Society recorded a settlement gain of \$463,756, net of fees upon final payout as part of the plan termination. The settlement gain was due to a forfeiture of an active participant's allocable pension amount in September 2017.

As the plan was fully terminated in 2018, the funded status is \$0 as of June 30, 2019 and 2018.

Amounts recognized in the statements of activities consist of the following:

	<u>2019</u>	<u>2018</u>
Operating income	\$ —	589,144
Net loss included in change in funded status of pension obligation	—	(1,056,833)

Weighted average assumptions used to determine benefit obligations for 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Discount rate	N/A	N/A
Rate of compensation increase	N/A	N/A

Weighted average assumptions used to determine net benefit costs at June 30, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Discount rate	N/A	1.38 %
Rate of compensation increase	N/A	N/A
Expected long-term return on plan assets	N/A	2.70 %

The Society's methodology for measuring the discount rate is based on an entity-specific interest rate yield curve, which is reflective of the assumed interest rates for the Society's anticipated benefit payment streams.

Benefits paid for the years ended June 30, 2019 and 2018 were \$0 and \$3,219,447, respectively.

## HAWAIIAN HUMANE SOCIETY

### Notes to Financial Statements

June 30, 2019 and 2018

#### (6) Defined-Contribution Retirement Savings Plan

The Society has a qualified 401(k) retirement savings plan for its employees. The Society matches 100% of employee contributions up to 4% of eligible compensation on a tax-deferred basis, subject to limits.

The Society's contributions to the plan years ended June 30, 2019 and 2018 amounted to \$76,715 and \$88,195, respectively.

#### (7) Land Underlying the Society's Facilities

The land underlying the Society's facilities is being leased from the City at \$1 per year through August 10, 2069. This land is restricted to use for animal control activities by the State of Hawaii. No amounts have been reflected in the financial statements for the use of such land, as the market value of the use of the land is not determinable based upon restrictions placed upon usage of the land by the state and the City.

#### (8) Net Assets with Donor Restrictions

Net assets with donor restrictions at June 30, 2019 and 2018 are available for the following purposes:

	2019	2018
Subject to expenditure for specific purposes:		
Capital Campaign	\$ 5,637,687	6,276,890
Charles and Chlorinda Lewis:		
Educational Fund for Capital Campaign	1,078,936	1,078,936
Mobile spay/neuter	100,000	100,000
Max's special fund	50,150	30,231
Emergency pet care and assistance	4,045	1,888
Kahuku grant	—	3,000
Animal care	—	655
Food Bank	3,010	—
Pets for patriots program	1,280	456
George's Fund Project Trial	25,000	—
Reid Krucky Memorial Fund	21,819	22,201
Dickens Fund	894	894
Spay/neuter clinic	1,177,442	1,913,514
	8,100,263	9,428,665
Restricted for investment in perpetuity and the income from which is expendable to support the following:		
Donor-designated fund	1,592,153	1,585,069
Not subject to appropriation or expenditure:		
Land required to be used as an animal care facility consistent with current services offered	756,632	750,000
Total net assets with donor restrictions	\$ 10,449,048	11,763,734

## HAWAIIAN HUMANE SOCIETY

### Notes to Financial Statements

June 30, 2019 and 2018

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors:

	<u>2019</u>	<u>2018</u>
Purpose restrictions accomplished:		
Capital Campaign	\$ 1,109,815	—
Max's special fund	8,354	30,449
Kahuku grant	3,000	24,000
Spay/neuter program	25,400	1,150
Adoptions program	51,000	26,000
Animal care	3,708	6,220
Pets for patriots program	—	442
Reid Krucky Memorial Fund	2,627	3,610
Spay/neuter clinic	896,656	—
Other	—	5,150
	<u>                    </u>	<u>                    </u>
Total restrictions released	\$ <u>2,100,560</u>	<u>97,021</u>

#### (9) Commitments and Contingencies

As of June 30, 2019, the Society had outstanding commitments under construction agreements of approximately \$244,800.

In the normal course of operations, the Society is subject to potential claims and litigation. Management believes that such matters will not have a material adverse effect on the Society's financial position.

#### (10) Subsequent Events

The Society has evaluated subsequent events from the statement of financial position date through November 18, 2019, the date at which the financial statements are available to be issued, and determined that there are no additional items to disclose.