

**MALAMA PONO HEALTH SERVICES**  
*(formerly Malama Pono – Kauai Aids Project)*

**FINANCIAL STATEMENTS AND SCHEDULE**  
**For the Years Ended June 30, 2010 and 2009**  
**And Independent Auditors' Report**

## INDEPENDENT AUDITORS' REPORT

Malama Pono Health Services (*formerly* Malama Pono – Kauai AIDS Project):

We have audited the accompanying statements of financial position of Malama Pono Health Services (*formerly* Malama Pono – Kauai AIDS Project), a nonprofit Hawaii corporation, as of June 30, 2010 and 2009, and the related statements of activities and of cash flows for the years then ended. These financial statements are the responsibility of the management of Malama Pono Health Services. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Malama Pono Health Services (*formerly* Malama Pono – Kauai AIDS Project) as of June 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of functional expenses for the year ended June 30, 2010 (with prior year comparative totals) is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*CW ASSOCIATES, CPAs*

September 9, 2010

**MALAMA PONO HEALTH SERVICES**  
*(formerly Malama Pono – Kauai Aids Project)*

**STATEMENTS OF FINANCIAL POSITION**

**As of June 30, 2010 and 2009**

|  | <u>2010</u>                 | <u>2009</u>                 |
|--|-----------------------------|-----------------------------|
| <b>ASSETS</b>  |                             |                             |
| Cash (including interest-bearing accounts)             | \$ 74,270                   | \$ 46,632                   |
| Grants and contracts receivable – net                  | 69,263                      | 60,740                      |
| Prepaid expenses and other assets                      | <u>12,505</u>               | <u>12,532</u>               |
| Total current assets                                   | <u>156,038</u>              | <u>119,904</u>              |
| <br>Property and equipment – net                       | <br><u>22,774</u>           | <br><u>12,611</u>           |
| <br><b>TOTAL ASSETS</b>                                | <br><b><u>\$178,812</u></b> | <br><b><u>\$132,515</u></b> |
| <br><b>LIABILITIES AND NET ASSETS</b>                  |                             |                             |
| <b>LIABILITIES</b>                                     |                             |                             |
| Accounts payable                                       | \$ 9,244                    | \$ 2,383                    |
| Accrued liabilities                                    | 20,887                      | 17,285                      |
| Deferred revenue                                       | <u>10,000</u>               | <u>10,000</u>               |
| Total liabilities                                      | <u>40,131</u>               | <u>29,668</u>               |
| <br><b>NET ASSETS</b>                                  |                             |                             |
| Unrestricted – undesignated                            | 104,212                     | 65,012                      |
| Temporarily restricted for PONO program                | 20,286                      | -                           |
| Temporarily restricted for Let's Talk About It program | 7,500                       | 17,063                      |
| Temporarily restricted for Ted Stafford program        | 6,683                       | 4,902                       |
| Other temporarily restricted net assets                | <u>-</u>                    | <u>15,870</u>               |
| Total net assets                                       | <u>138,681</u>              | <u>102,847</u>              |
| <br><b>TOTAL LIABILITIES AND NET ASSETS</b>            | <br><b><u>\$178,812</u></b> | <br><b><u>\$132,515</u></b> |

See accompanying notes to financial statements.

**MALAMA PONO HEALTH SERVICES**  
*(formerly Malama Pono – Kauai Aids Project)*

**STATEMENTS OF ACTIVITIES**

**For the Years Ended June 30, 2010 and 2009**

|  | <u>2010</u>             | <u>2009</u>             |
|--|-------------------------|-------------------------|
| <b>CHANGES IN UNRESTRICTED NET ASSETS</b>                |                         |                         |
| Revenue and support                                      |                         |                         |
| Grants and contracts                                     | \$430,494               | \$382,129               |
| Special events (including related contributions)         | 110,304                 | 95,922                  |
| Contributions released from temporary restrictions       | 41,080                  | 34,924                  |
| Other contributions and gifts                            | 12,961                  | 23,019                  |
| Other revenue and support                                | 93                      | 1,886                   |
| Total revenue and support                                | <u>594,932</u>          | <u>537,880</u>          |
| Expenses   |                         |                         |
| Program expenses   |                         |                         |
| Education  | 164,915                 | 164,242                 |
| Case management  | 144,026                 | 162,532                 |
| Client services  | 129,110                 | 83,559                  |
| Total program expenses                                   | <u>438,051</u>          | <u>410,333</u>          |
| Supporting services                                      |                         |                         |
| Management and general                                   | 63,289                  | 62,725                  |
| Fundraising  | 54,392                  | 49,410                  |
| Total supporting services                                | <u>117,681</u>          | <u>112,135</u>          |
| Total expenses   | <u>555,732</u>          | <u>522,468</u>          |
| Increase in unrestricted net assets                      | <u>39,200</u>           | <u>15,412</u>           |
| <b>CHANGES IN TEMPORARILY RESTRICTED NET ASSETS</b>      |                         |                         |
| Temporarily restricted contributions                     | 46,714                  | 59,759                  |
| Contributions released from temporary restrictions       | (41,080)                | (34,924)                |
| Contribution returned to donor                           | (9,000)                 | -                       |
| Increase (decrease) in temporarily restricted net assets | <u>(3,366)</u>          | <u>24,835</u>           |
| <b>INCREASE IN NET ASSETS</b>                            | <b>35,834</b>           | <b>40,247</b>           |
| <b>NET ASSETS – Beginning of year</b>                    | <b><u>102,847</u></b>   | <b><u>62,600</u></b>    |
| <b>NET ASSETS – End of year</b>                          | <b><u>\$138,681</u></b> | <b><u>\$102,847</u></b> |

See accompanying notes to financial statements.

**MALAMA PONO HEALTH SERVICES**  
*(formerly Malama Pono – Kauai Aids Project)*

**STATEMENTS OF CASH FLOWS**

**For the Years Ended June 30, 2010 and 2009**

|   | <u>2010</u>            | <u>2009</u>            |
|---|------------------------|------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                        |                        |
| Increase in net assets  | \$35,834               | \$40,247               |
| Adjustment to reconcile increase in net assets to net cash provided by operating activities |                        |                        |
| Depreciation  | 5,124                  | 3,980                  |
| (Increase) decrease in:   |                        |                        |
| Grants and contracts receivable – net   | (8,523)                | 18,728                 |
| Prepaid expenses and other assets   | 27                     | (153)                  |
| Increase (decrease) in:   |                        |                        |
| Accounts payable  | 6,861                  | (9,836)                |
| Accrued liabilities   | 3,602                  | 4,958                  |
| Deferred revenue  | -                      | (11,636)               |
| Net cash provided by operating activities   | <u>42,925</u>          | <u>46,288</u>          |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |                        |                        |
| Additions to property and equipment   | <u>(15,287)</u>        | <u>(10,336)</u>        |
| Net cash used by investing activities   | <u>(15,287)</u>        | <u>(10,336)</u>        |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>   |                        |                        |
| Decrease in advances on line-of-credit  | <u>-</u>               | <u>(20,000)</u>        |
| Net cash used by financing activities   | <u>-</u>               | <u>(20,000)</u>        |
| <b>NET INCREASE IN CASH</b>   | <b>27,638</b>          | <b>15,952</b>          |
| <b>CASH – Beginning of year</b>   | <u><b>46,632</b></u>   | <u><b>30,680</b></u>   |
| <b>CASH – End of year</b>   | <u><b>\$74,270</b></u> | <u><b>\$46,632</b></u> |
| <b>SUPPLEMENTAL CASH FLOW INFORMATION</b>   |                        |                        |
| Cash paid during the year for interest  | \$ -                   | \$ 198                 |

See accompanying notes to financial statements.

**MALAMA PONO HEALTH SERVICES**  
**(formerly Malama Pono – Kauai Aids Project)**

**NOTES TO FINANCIAL STATEMENTS**

**For the Years Ended June 30, 2010 and 2009**

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Organization and Activity

Malama Pono Health Services (Malama Pono) was incorporated under the laws of the State of Hawaii in October 1987 Malama Pono – Kauai AIDS Project and changed its name to Malama Pono Health Services during the year ended June 30, 2010. Malama Pono was organized to stop the spread of HIV/AIDS, sexually transmitted diseases (STDs), and infectious Hepatitis through education, and to provide services to persons infected with or affected by these diseases on the Island of Kauai. Each year, Malama Pono sponsors the *Paradise Ride, Kauai Sings*, and other special events to support its programs. Special events revenue for the year ended June 30, 2010 included \$67,522 in contributions for the events, of which \$7,733 were in-kind contributions. Special events revenue for the year ended June 30, 2009 included \$68,982 in contributions for the events, of which \$14,989 were in-kind contributions.

Malama Pono is exempt from federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code and is not a private foundation. Consequently, qualifying contributions to Malama Pono are tax deductible.

Basis of Accounting

Malama Pono reports 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 (none in 2010 and 2009). Support is reported when pledged and is considered to be available for unrestricted use unless restricted by the donor. Donor restricted support is reported when pledged as an increase in temporarily restricted or permanently restricted net assets, depending on the nature of the restriction. When a temporary restriction is satisfied or expires, temporarily restricted net assets are reclassified to unrestricted net assets. Revenue from certain grants and contracts is recognized to the extent of expenditures made in accordance with the related agreements. The recognition of such revenue is deferred until the services are performed. Expenses are recognized when the related liability is incurred. Expenses are allocated on a functional basis among various program and support services based on estimates by management. Expenses that can be identified with a program or supporting service are charged directly to the program or supporting service using natural expense classifications. Other expenses that are common to several functions are allocated by various bases. Advertising costs, amounting to \$26,818 and \$16,958 for the years ended June 30, 2010 and 2009, respectively, were expensed as incurred.

Amounts received for grants and contracts are subject to audit and adjustment by various agencies. Any disallowed claim, including amounts already collected, may constitute a liability. Management expects such amounts, if any, to be immaterial to the financial statements. Revenue and support is derived principally from grants and contracts, the loss of which could have a material adverse effect on Malama Pono.

A substantial number of unpaid volunteers have made significant contributions of their time to Malama Pono, which is not reflected in these financial statements because it is not susceptible to objective measurement and valuation.

## NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Use of Estimates

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates, and it is reasonably possible that such estimates may change within the near-term.

### Concentrations of Credit Risk

Financial instruments that potentially subject Malama Pono to credit risk include cash, and grants and contracts receivable. Cash on deposit with financial institutions was fully insured at June 30, 2010 and 2009. Grants and contracts receivable, which have been adjusted for all known doubtful accounts, are determined to be collectible or uncollectible based on an assessment by management of the facts and circumstances related to the individual accounts.

### Property and Equipment

Property and equipment consists of office furniture and equipment stated at cost or, if contributed, at estimated fair market value at the date of contribution. Depreciation is provided using the straight-line method over estimated useful lives of three to seven years. Repairs and maintenance are expensed. Major improvements are capitalized.

### Line-of-Credit

Malama Pono has a \$30,000 revolving line-of-credit with Bank of Hawaii that is renewable annually. Advances on the line-of-credit are collateralized by the cash accounts of Malama Pono, and bear interest at the Bank's base rate plus 3%. There were no advances outstanding on the line-of-credit at June 30, 2010 and 2009. The Bank's base rate was 3.25% at June 30, 2010 and 4.5% at June 30, 2009. The line-of-credit includes covenants that limit the use of advances require periodic reports to the Bank.

### Leases

Malama Pono leases office space and equipment under operating leases expiring in January 2013 and May 2015, respectively. Lease rent expense for the years ended June 30, 2010 and 2009 amounted to \$40,012 and \$39,486, respectively. At June 30, 2010, future minimum lease payments by fiscal years ending June 30th approximated \$39,100 in 2011, \$44,600 in 2012, \$28,200 in 2013, \$2,400 in 2014 and \$2,200 in 2015.

### Financial Statement Presentation

Certain amounts in the 2009 financial statements have been reclassified to conform to the 2010 presentation. Management has evaluated subsequent events through the date of the independent auditors' report, which is the date the financial statements were available to be issued. Malama Pono operates on the Island of Kauai in the State of Hawaii. National and international events can have severe, adverse effects on economic conditions in Hawaii. The effects on the financial statements of Malama Pono, if any, from such changes in economic conditions are not presently determinable.

**MALAMA PONO HEALTH SERVICES**  
(formerly Malama Pono – Kauai Aids Project)

**SCHEDULE OF FUNCTIONAL EXPENSES**

**For the Year Ended June 30, 2010**  
(With Prior Year Comparative Totals)

|                           | Program Services  |                   |                   | Supporting Services    |                  |                   | 2009<br>Total     |
|---------------------------|-------------------|-------------------|-------------------|------------------------|------------------|-------------------|-------------------|
|                           | Case Management   | Education         | Client Services   | Management and General | Fund-Raising     | 2010<br>Total     |                   |
| Salaries and benefits     | \$ 128,720        | \$ 103,217        | \$ 26,233         | \$ 11,758              | \$ 3,919         | \$ 15,677         | \$ 273,421        |
| Client assistance         | 539               | -                 | 74,337            | 1,289                  | 1,417            | 2,706             | 77,996            |
| Occupancy                 | 20,391            | 8,746             | 1,668             | 11,018                 | -                | 11,018            | 41,914            |
| Professional fees         | 1,000             | 370               | 1,020             | 9,212                  | 18,660           | 27,872            | 25,961            |
| Publicity and advertising | -                 | 16,803            | 5,906             | 527                    | 3,582            | 4,109             | 16,958            |
| Meetings and conferences  | -                 | 60                | 9,237             | 3,925                  | 6,854            | 10,779            | 11,921            |
| Supplies                  | 1,118             | 2,060             | 4,692             | 1,466                  | 6,485            | 7,951             | 12,476            |
| Insurance                 | 4,146             | 3,242             | 962               | 4,585                  | -                | 4,585             | 11,484            |
| Equipment                 | 5,359             | 1,922             | 543               | 4,769                  | -                | 4,769             | 8,338             |
| Travel                    | 531               | 5,988             | 3,266             | 2,001                  | 274              | 2,275             | 10,725            |
| Contract services         | 1,678             | 790               | 550               | 3,529                  | 2,394            | 5,923             | 7,430             |
| Participation incentives  | -                 | 410               | -                 | -                      | 7,927            | 7,927             | 11,415            |
| Depreciation              | -                 | -                 | -                 | 5,124                  | -                | 5,124             | 3,980             |
| Postage and Printing      | 610               | 418               | 246               | 1,166                  | 1,211            | 2,377             | 5,400             |
| Miscellaneous             | 823               | -                 | 450               | 2,920                  | 1,669            | 4,589             | 3,049             |
| <b>Total</b>              | <b>\$ 164,915</b> | <b>\$ 144,026</b> | <b>\$ 129,110</b> | <b>\$ 63,289</b>       | <b>\$ 54,392</b> | <b>\$ 117,681</b> | <b>\$ 555,732</b> |