

MALAMA PONO HEALTH SERVICES

**FINANCIAL STATEMENTS
As of and For the Year Ended June 30, 2011
With Prior Year Comparative Information
And Independent Auditors' Report**

CW Associates

A Hawaii Certified Public Accounting Corporation

CARLETON L. WILLIAMS, MANAGING PARTNER

INDEPENDENT AUDITORS' REPORT

Malama Pono Health Services:

We have audited the accompanying statement of financial position of Malama Pono Health Services (Malama Pono), a nonprofit Hawaii corporation, as of June 30, 2011, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the management of Malama Pono. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the financial statements of Malama Pono as of and for the year ended June 30, 2010 and, in our report dated September 9, 2010, we expressed an unqualified opinion on those financial statements.

We conducted our audit 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 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 audit provides 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 as of June 30, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

CW ASSOCIATES, CPAs

October 21, 2011

Topa Financial Center
700 Bishop Street, Suite 1040
Honolulu, Hawaii 96813
Telephone (808) 531-1040
Facsimile (808) 599-8719
www.cwassociatescpas.com

MALAMA PONO HEALTH SERVICES
STATEMENT OF FINANCIAL POSITION

As of June 30, 2011
(With Prior Year Comparative Information)

	<u>2011</u>	<u>2010</u>
ASSETS		
CURRENT ASSETS		
Cash (including interest-bearing accounts)	\$ 30,659	\$ 74,270
Grants and contracts receivable – net	75,632	69,263
Prepaid expenses and other assets	12,365	12,505
Total current assets	<u>118,656</u>	<u>156,038</u>
PROPERTY AND EQUIPMENT – Net	<u>17,464</u>	<u>22,774</u>
TOTAL ASSETS	<u>\$ 136,120</u>	<u>\$ 178,812</u>
 LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 8,193	\$ 9,244
Accrued liabilities	23,284	20,887
Deferred revenue	-	10,000
Total current liabilities	<u>31,477</u>	<u>40,131</u>
NET ASSETS		
Unrestricted – undesignated	84,334	104,212
Temporarily restricted for PONO program	8,533	20,286
Temporarily restricted for Let's Talk About It program	-	7,500
Temporarily restricted for Ted Stafford program	3,964	6,683
Other temporarily restricted net assets	7,812	-
Total net assets	<u>104,643</u>	<u>138,681</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 136,120</u>	<u>\$ 178,812</u>

See accompanying notes to financial statements.

MALAMA PONO HEALTH SERVICES

STATEMENT OF ACTIVITIES

**For the Year Ended June 30, 2011
(With Prior Year Comparative Information)**

	<u>2011</u>	<u>2010</u>
CHANGES IN UNRESTRICTED NET ASSETS		
Revenue and support		
Grants and contracts	\$394,361	\$ 430,494
Special events (including related contributions)	111,666	110,304
Net assets released from temporary restrictions	33,511	41,080
Other contributions and gifts	11,261	12,961
Other revenue and support	145	93
Total revenue and support	<u>550,944</u>	<u>594,932</u>
Expenses		
Program services		
Case management	165,143	164,915
Education	134,387	144,026
Client services	<u>104,211</u>	<u>129,110</u>
Total program services	<u>403,741</u>	<u>438,051</u>
Supporting services		
Management and general	96,185	63,289
Fundraising	<u>70,896</u>	<u>54,392</u>
Total supporting services	<u>167,081</u>	<u>117,681</u>
Total expenses	<u>570,822</u>	<u>555,732</u>
Increase (decrease) in unrestricted net assets	<u>(19,878)</u>	<u>39,200</u>
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Temporarily restricted contributions	19,351	46,714
Net assets released from temporary restrictions	(33,511)	(41,080)
Contribution returned to donor	-	(9,000)
Decrease in temporarily restricted net assets	<u>(14,160)</u>	<u>(3,366)</u>
INCREASE (DECREASE) IN NET ASSETS	(34,038)	35,834
NET ASSETS – Beginning of year	<u>138,681</u>	<u>102,847</u>
NET ASSETS – End of year	<u>\$104,643</u>	<u>\$ 138,681</u>

See accompanying notes to financial statements.

MALAMA PONO HEALTH SERVICES

STATEMENT OF CASH FLOWS

**For the Year Ended June 30, 2011
(With Prior Year Comparative Information)**

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$(34,038)	\$ 35,834
Adjustment to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities		
Depreciation	8,246	5,124
(Increase) decrease in:		
Grants and contracts receivable – net	(6,369)	(8,523)
Prepaid expenses and other assets	140	27
Increase (decrease) in:		
Accounts payable	(1,051)	6,861
Accrued liabilities	2,397	3,602
Deferred revenue	(10,000)	-
Net cash provided (used) by operating activities	<u>(40,675)</u>	<u>42,925</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property and equipment	<u>(2,936)</u>	<u>(15,287)</u>
Net cash used by investing activities	<u>(2,936)</u>	<u>(15,287)</u>
NET INCREASE (DECREASE) IN CASH	(43,611)	27,638
CASH – Beginning of year	<u>74,270</u>	<u>46,632</u>
CASH – End of year	<u>\$ 30,659</u>	<u>\$ 74,270</u>

See accompanying notes to financial statements.

MALAMA PONO HEALTH SERVICES

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2011
(With Prior Year Comparative Information)

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 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 years ended June 30, 2011 and 2010 included \$65,327 and \$67,522, respectively, in contributions for the events, of which \$3,746 and \$7,733, respectively, were in-kind contributions.

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 2011 and 2010). 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 \$14,067 and \$26,817 for the years ended June 30, 2011 and 2010, respectively, were expensed as incurred.

Donated services are recognized as contributions if the services create or enhance nonfinancial assets, or require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. A number of unpaid volunteers have made significant contributions of their time to the Organization. The value of this time is not reflected in these financial statements because it does not meet the criteria for recognition.

Use of Estimates

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of financial statements in accordance with such generally accepted accounting principles requires 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.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2011 and 2010. 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 discontinued a no longer needed \$30,000 revolving line-of-credit with Bank of Hawaii during the year ended June 30, 2011. Advances on the line-of-credit were collateralized by the cash accounts of Malama Pono, and included interest at the Bank's base rate plus 3%. There were no advances outstanding on the line-of-credit at June 30, 2010. The line-of-credit included covenants that limited the use of advances and required 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, 2011 and 2010 amounted to \$42,405 and \$40,012, respectively. At June 30, 2011, future minimum lease payments by fiscal years ending June 30th approximated \$44,600 in 2012, \$28,200 in 2013, \$2,400 in 2014 and \$2,200 in 2015.

Hawaii General Excise Tax

The State of Hawaii imposes a general excise tax of 4% on Malama Pono's gross receipts from special events. Hawaii general excise tax included in special events expense amounted to \$1,917 and \$1,632 for the years ended June 30, 2011 and 2010, respectively.

Income Taxes

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. Accordingly, qualifying contributions to Malama Pono are tax deductible.

Accounting principles generally accepted in the United States of America require uncertain tax positions to be recognized in the financial statements if they are more likely than not to fail upon regulatory examination. Management has evaluated the Malama Pono's tax positions as of June 30, 2011 and 2010 and for the years then ended by reviewing its income tax returns and conferring with its tax advisors, and determined that Malama Pono had no uncertain tax positions required to be reported in accordance with such generally accepted accounting principles. Such returns are open for examination until the statute of limitations expires.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contingencies

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.

Financial Statement Presentation

The financial statements include certain prior year comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Malama Pono's financial statements as of and for the year ended June 30, 2010, from which the information was derived.

Certain amounts in the prior year comparative information have been reclassified to conform to the current year 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.
