

**MALAMA PONO HEALTH SERVICES**

**FINANCIAL STATEMENTS  
As of and For the Year Ended June 30, 2012  
With Prior Year Comparative Information  
And Independent Auditors' Report**

## **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, 2012, 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, 2011 and, in our report dated October 21, 2011, 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, 2012, 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*

August 30, 2012

**MALAMA PONO HEALTH SERVICES**  
**STATEMENT OF FINANCIAL POSITION**

**As of June 30, 2012**  
**(With Prior Year Comparative Information)**

	<u>2012</u>	<u>2011</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash (including interest-bearing accounts)	\$ 88,637	\$ 30,659
Grants and contracts receivable – net	36,629	75,632
Prepaid expenses and other assets	13,329	12,365
Total current assets	<u>138,595</u>	<u>118,656</u>
<b>PROPERTY AND EQUIPMENT – Net</b>	<u>17,892</u>	<u>17,464</u>
<b>TOTAL ASSETS</b>	<u>\$ 156,487</u>	<u>\$ 136,120</u>
 <b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 5,044	\$ 8,193
Accrued liabilities	24,275	23,284
Total current liabilities	<u>29,319</u>	<u>31,477</u>
<b>NET ASSETS</b>		
Unrestricted – undesignated	90,149	84,334
Temporarily restricted for Chaplin Hep B Planning program	29,398	-
Temporarily restricted for PONO program	-	8,533
Temporarily restricted for Ted Stafford program	1,217	3,964
Other temporarily restricted net assets	6,404	7,812
Total net assets	<u>127,168</u>	<u>104,643</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 156,487</u>	<u>\$ 136,120</u>

See accompanying notes to financial statements.

**MALAMA PONO HEALTH SERVICES**

**STATEMENT OF ACTIVITIES**

**For the Year Ended June 30, 2012  
(With Prior Year Comparative Information)**

	<u>2012</u>	<u>2011</u>
<b>CHANGES IN UNRESTRICTED NET ASSETS</b>		
Revenue and support		
Grants and contracts	\$440,624	\$ 394,361
Special events (including related contributions)	118,024	111,666
Unrestricted contributions and gifts	58,685	11,261
Net assets released from temporary restrictions	47,900	33,511
Other revenue and support	177	145
Total revenue and support	<u>665,410</u>	<u>550,944</u>
Expenses		
Program services		
Case management	165,518	165,143
Client services	158,080	104,211
Education	138,612	134,387
Total program services	<u>462,210</u>	<u>403,741</u>
Supporting services		
Management and general	118,990	96,185
Fundraising	78,395	70,896
Total supporting services	<u>197,385</u>	<u>167,081</u>
Total expenses	<u>659,595</u>	<u>570,822</u>
Increase (decrease) in unrestricted net assets	<u>5,815</u>	<u>(19,878)</u>
<b>CHANGES IN TEMPORARILY RESTRICTED NET ASSETS</b>		
Temporarily restricted contributions	64,610	19,351
Net assets released from temporary restrictions	(47,900)	(33,511)
Increase (decrease) in temporarily restricted net assets	<u>16,710</u>	<u>(14,160)</u>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<b>22,525</b>	<b>(34,038)</b>
<b>NET ASSETS – Beginning of year</b>	<b><u>104,643</u></b>	<b><u>138,681</u></b>
<b>NET ASSETS – End of year</b>	<b><u>\$127,168</u></b>	<b><u>\$ 104,643</u></b>

See accompanying notes to financial statements.

**MALAMA PONO HEALTH SERVICES**  
**STATEMENT OF FUNCTIONAL EXPENSES**

**For the Year Ended June 30, 2012**  
**(With Prior Year Comparative Information)**

	Program Services			Supporting Services			2011 Total
	Case Management	Client Services	Education	Total	Management and General	Fund- Raising	
Salaries and benefits	\$ 128,702	\$ 25,328	\$ 102,391	\$ 256,421	\$ 32,249	\$ 11,205	\$ 299,875
Client assistance	1,977	72,615	-	74,592	-	2,165	76,757
Occupancy	20,214	5,391	3,709	29,314	23,486	-	52,800
Professional fees	1,000	8,968	3,417	13,385	9,294	23,527	46,206
Contract services	1,200	19,943	100	21,243	11,712	5,026	37,981
Supplies	972	5,277	8,669	14,918	1,423	4,058	20,399
Equipment	5,090	-	-	5,090	14,473	-	19,563
Publicity and advertising	-	5,605	6,158	11,763	3,903	3,867	19,533
Participation incentives	-	800	350	1,150	25	17,756	18,931
Travel	1,081	2,862	4,451	8,394	5,972	821	15,187
Meetings and conferences	-	2,621	3,491	6,112	2,109	6,259	14,480
Insurance	4,091	2,312	5,218	11,621	1,471	75	13,167
Depreciation	-	-	-	-	9,280	-	9,280
Postage and Printing	446	1,308	658	2,412	653	1,650	4,715
Miscellaneous	745	5,050	-	5,795	2,940	1,986	10,721
<b>Total</b>	<b>\$ 165,518</b>	<b>\$ 158,080</b>	<b>\$ 138,612</b>	<b>\$ 462,210</b>	<b>\$ 118,990</b>	<b>\$ 78,395</b>	<b>\$ 659,595</b>
							<b>\$ 570,822</b>

See accompanying notes to financial statements.

**MALAMA PONO HEALTH SERVICES**

**STATEMENT OF CASH FLOWS**

**For the Year Ended June 30, 2012  
(With Prior Year Comparative Information)**

	<u>2012</u>	<u>2011</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase (decrease) in net assets	\$ 22,525	\$(34,038)
Adjustment to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities		
Depreciation	9,280	8,246
(Increase) decrease in:		
Grants and contracts receivable – net	39,003	(6,369)
Prepaid expenses and other assets	(964)	140
Increase (decrease) in:		
Accounts payable	(3,149)	(1,051)
Accrued liabilities	991	2,397
Deferred revenue	-	(10,000)
Net cash provided (used) by operating activities	<u>67,686</u>	<u>(40,675)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to property and equipment	<u>(9,708)</u>	<u>(2,936)</u>
Net cash used by investing activities	<u>(9,708)</u>	<u>(2,936)</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	57,978	(43,611)
<b>CASH – Beginning of year</b>	<u>30,659</u>	<u>74,270</u>
<b>CASH – End of year</b>	<u>\$ 88,637</u>	<u>\$ 30,659</u>

See accompanying notes to financial statements.

**MALAMA PONO HEALTH SERVICES**  
**NOTES TO FINANCIAL STATEMENTS**

**For the Year Ended June 30, 2012**  
**(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, 2012 and 2011 included \$72,795 and \$65,327, respectively, in contributions for the events, of which \$15,136 and \$3,746, 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 2012 and 2011). 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 \$19,533 and \$14,067 for the years ended June 30, 2012 and 2011, 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 Malama Pono. A number of unpaid volunteers have made significant contributions of their time to Malama Pono. 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, 2012 and 2011. 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. Accumulated depreciation as of June 30, 2012 and 2011 was \$21,637 and \$18,331, respectively.

### 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, 2012 and 2011 amounted to \$46,506 and \$42,405, respectively. At June 30, 2012, future minimum lease payments by fiscal years ending June 30th approximated \$28,200 in 2013, \$2,400 in 2014, and \$2,100 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 \$1,724 and \$1,917 for the years ended June 30, 2012 and 2011, 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 Malama Pono's tax positions as of June 30, 2012 and 2011 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.

### 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 largely derived from State of Hawaii funding through the Department of Health, the loss of which could have a material adverse effect on Malama Pono.



NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation

The financial statements include certain prior year comparative information that is not in sufficient detail to constitute a complete presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the financial statements of Malama Pono as of and for the year ended June 30, 2011, 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.

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