



IHS, THE INSTITUTE FOR HUMAN SERVICES, INC.

FINANCIAL STATEMENTS AND SUPPLEMENTARY
INFORMATION WITH INDEPENDENT AUDITOR'S REPORT

Fiscal Years Ended June 30, 2018 and 2017



IHS, THE INSTITUTE FOR HUMAN SERVICES, INC.

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR’S REPORT	3 - 5
FINANCIAL STATEMENTS	
Statements of Financial Position	6
Statements of Activities	7 - 8
Statements of Functional Expenses	9 - 10
Statements of Cash Flows	11
Notes to Financial Statements	12 - 21
SUPPLEMENTARY INFORMATION	
Schedule of State Housing Placement Program Contract with the Department of Human Services of the State of Hawaii	23

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
IHS, The Institute for Human Services, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of IHS, The Institute for Human Services, Inc. (IHS) (a nonprofit organization), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the fiscal 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of IHS as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of State Housing Placement Program Contract with the Department of Human Services of the State of Hawaii is presented for purpose of additional analysis as required by the Department of Human Services of the State of Hawaii, 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.

Other Reporting Required By *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 15, 2019 on our consideration of the IHS's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance

N&K CPAs, Inc.

ACCOUNTANTS | CONSULTANTS

and the results of that testing, and not to provide an opinion on the effectiveness of IHS's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering IHS's internal control over financial reporting and compliance.

N&K CPAs, Inc.

Honolulu, Hawaii
February 15, 2019

IHS, The Institute for Human Services, Inc.
STATEMENTS OF FINANCIAL POSITION
June 30, 2018 and 2017

	2018	2017
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 585,654	\$ 650,493
Grants receivable, net	2,907,066	3,387,348
Interest receivable	5,160	4,749
Prepaid expenses	159,029	93,670
Other receivable, net	<u>112,518</u>	<u>134,131</u>
Total current assets	<u>3,769,427</u>	<u>4,270,391</u>
PROPERTY AND EQUIPMENT		
Building improvements	5,420,222	5,432,782
Computers and equipment	1,127,427	1,041,832
Autos and trucks	<u>155,236</u>	<u>155,236</u>
	6,702,885	6,629,850
Less accumulated depreciation and amortization	<u>4,173,842</u>	<u>3,837,597</u>
	<u>2,529,043</u>	<u>2,792,253</u>
OTHER ASSETS		
Beneficial interest in perpetual trusts	1,427,129	1,427,418
Cash held for permanent endowment	1,200,000	1,200,000
Cash held for others	131,822	103,459
Security deposits	<u>31,200</u>	<u>15,500</u>
	<u>2,790,151</u>	<u>2,746,377</u>
	<u>\$ 9,088,621</u>	<u>\$ 9,809,021</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Line of credit	\$ --	\$ 300,000
Accounts payable	456,491	404,840
Accrued liabilities	517,404	356,571
Deferred revenue	602,203	1,267,756
Cash held for others	<u>131,822</u>	<u>103,459</u>
Total current liabilities	<u>1,707,920</u>	<u>2,432,626</u>
NET ASSETS		
Unrestricted	3,892,780	4,077,333
Temporarily restricted	860,792	671,644
Permanently restricted	<u>2,627,129</u>	<u>2,627,418</u>
	<u>7,380,701</u>	<u>7,376,395</u>
	<u>\$ 9,088,621</u>	<u>\$ 9,809,021</u>

See accompanying notes to the financial statements.

IHS, The Institute for Human Services, Inc.
STATEMENTS OF ACTIVITIES
Fiscal Year Ended June 30, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUE AND SUPPORT				
Government grants	\$ 10,389,222	\$ --	\$ --	\$ 10,389,222
Program service fees	1,892,634	--	--	1,892,634
Contributions	1,650,181	479,130	--	2,129,311
Donated use of facility	735,951	--	--	735,951
Donated food	619,594	--	--	619,594
Program fees and other	429,410	--	--	429,410
Investment income	64,288	22,830	--	87,118
Change in value of split-interest agreements	--	--	(289)	(289)
Net assets released from restrictions				
Satisfaction of usage restrictions	<u>312,812</u>	<u>(312,812)</u>	<u>--</u>	<u>--</u>
Total revenue and support	<u>16,094,092</u>	<u>189,148</u>	<u>(289)</u>	<u>16,282,951</u>
EXPENSES				
Program services				
Shelter	5,347,435	--	--	5,347,435
Social services	6,874,867	--	--	6,874,867
Meal service	1,200,653	--	--	1,200,653
Intensive case management services	617,603	--	--	617,603
Volunteer	64,820	--	--	64,820
	<u>14,105,378</u>	<u>--</u>	<u>--</u>	<u>14,105,378</u>
Supporting services				
Management and general	1,430,254	--	--	1,430,254
Fundraising and development	743,013	--	--	743,013
	<u>2,173,267</u>	<u>--</u>	<u>--</u>	<u>2,173,267</u>
Total expenses	<u>16,278,645</u>	<u>--</u>	<u>--</u>	<u>16,278,645</u>
CHANGE IN NET ASSETS	(184,553)	189,148	(289)	4,306
NET ASSETS AT BEGINNING OF FISCAL YEAR				
	<u>4,077,333</u>	<u>671,644</u>	<u>2,627,418</u>	<u>7,376,395</u>
NET ASSETS AT END OF FISCAL YEAR	\$ <u>3,892,780</u>	\$ <u>860,792</u>	\$ <u>2,627,129</u>	\$ <u>7,380,701</u>

See accompanying notes to the financial statements.

IHS, The Institute for Human Services, Inc.
STATEMENTS OF ACTIVITIES (Continued)
Fiscal Year Ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUE AND SUPPORT				
Government grants	\$ 10,705,096	\$ --	\$ --	\$ 10,705,096
Program service fees	1,341,827	--	--	1,341,827
Contributions	1,411,656	1,109,851	--	2,521,507
Donated use of facility	783,853	--	--	783,853
Donated food	578,370	--	--	578,370
Program fees and other	308,813	--	--	308,813
Investment income	61,494	13,433	--	74,927
Donated vehicle	6,621	--	--	6,621
Change in value of split-interest agreements	--	--	44,251	44,251
Net assets released from restrictions satisfaction of usage restrictions	<u>775,317</u>	<u>(775,317)</u>	<u>--</u>	<u>--</u>
Total revenue and support	<u>15,973,047</u>	<u>347,967</u>	<u>44,251</u>	<u>16,365,265</u>
EXPENSES				
Program services				
Shelter	5,046,553	--	--	5,046,553
Social services	6,518,664	--	--	6,518,664
Meal service	1,154,864	--	--	1,154,864
Intensive case management services	626,381	--	--	626,381
Volunteer	19,436	--	--	19,436
	<u>13,365,898</u>	<u>--</u>	<u>--</u>	<u>13,365,898</u>
Supporting services				
Management and general	1,791,530	--	--	1,791,530
Fundraising and development	271,945	--	--	271,945
	<u>2,063,475</u>	<u>--</u>	<u>--</u>	<u>2,063,475</u>
Total expenses	<u>15,429,373</u>	<u>--</u>	<u>--</u>	<u>15,429,373</u>
CHANGE IN NET ASSETS	543,674	347,967	44,251	935,892
NET ASSETS AT BEGINNING OF FISCAL YEAR				
	<u>3,533,659</u>	<u>323,677</u>	<u>2,583,167</u>	<u>6,440,503</u>
NET ASSETS AT END OF FISCAL YEAR	<u>\$ 4,077,333</u>	<u>\$ 671,644</u>	<u>\$ 2,627,418</u>	<u>\$ 7,376,395</u>

See accompanying notes to the financial statements.

IHS, The Institute for Human Services, Inc.
STATEMENTS OF FUNCTIONAL EXPENSES
Fiscal Year Ended June 30, 2018

	Program Services					Supporting Services				
	Shelter	Social Services	Meal Service	Intensive Case Management Services	Volunteer	Total Program Services	Management and General	Fundraising and Development	Total Supporting Services	Total
Salaries and wages	\$ 2,526,884	\$ 1,838,360	\$ 263,088	\$ 443,195	\$ 43,085	\$ 5,114,612	\$ 498,015	\$ 367,768	\$ 865,783	\$ 5,980,395
Payroll taxes and employee benefits	546,834	355,606	21,361	83,663	9,537	1,017,001	234,845	71,961	306,806	1,323,807
Total compensation	3,073,718	2,193,966	284,449	526,858	52,622	6,131,613	732,860	439,729	1,172,589	7,304,202
Guest and housing assistance	327,972	4,207,075	--	6,140	--	4,541,187	--	--	--	4,541,187
Rent (including donated use of facilities of \$735,951)	825,161	75,941	66,962	13,917	1,080	983,061	32,431	3,955	36,386	1,019,447
Food (including donated food of \$619,594)	20,537	2,428	743,225	--	--	766,190	3	--	3	766,193
Utilities	322,345	26,803	--	--	--	349,148	4,703	1,849	6,552	355,700
Depreciation	251,002	39,337	20,182	7,424	581	318,526	14,215	3,505	17,720	336,246
Supplies	148,856	21,856	85,454	19,113	492	275,771	31,870	4,069	35,939	311,710
Miscellaneous	3,769	757	--	690	--	5,216	252,234	2,740	254,974	260,190
Professional fees	--	166,729	--	844	--	167,573	66,633	657	67,290	234,863
Outside services	23,984	40,126	--	20,000	--	84,110	80,024	1,971	81,995	166,105
Printing	1,389	3,084	--	504	67	5,044	2,271	140,963	143,234	148,278
Communications	74,361	30,731	4	8,281	--	113,377	31,162	2,956	34,118	147,495
Repairs and maintenance	112,304	9,202	--	1,161	--	122,667	4,524	3,549	8,073	130,740
Vehicle	45,358	31,714	--	10,640	--	87,712	4,867	228	5,095	92,807
Waste management	77,896	--	--	--	--	77,896	--	--	--	77,896
Insurance	--	--	--	--	--	--	68,981	--	68,981	68,981
Bank and payroll service fees	--	--	--	--	--	--	55,701	8,476	64,177	64,177
Equipment	35,187	17,286	--	534	567	53,574	711	5,962	6,673	60,247
Dues and subscriptions	--	--	377	--	6,271	6,648	10,363	42,685	53,048	59,696
Postage	533	2,965	--	435	3,125	7,058	--	41,834	41,834	48,892
Advertising and promotion	--	--	--	--	--	--	1,601	37,850	39,451	39,451
Training and education	3,063	4,867	--	1,062	15	9,007	21,745	35	21,780	30,787
Interest expense	--	--	--	--	--	--	13,355	--	13,355	13,355
Total functional expenses	\$ 5,347,435	\$ 6,874,867	\$ 1,200,653	\$ 617,603	\$ 64,820	\$ 14,105,378	\$ 1,430,254	\$ 743,013	\$ 2,173,267	\$ 16,278,645

See accompanying notes to financial statements.

IHS, The Institute for Human Services, Inc.
STATEMENTS OF FUNCTIONAL EXPENSES (Continued)
Fiscal Year Ended June 30, 2017

	Program Services					Supporting Services				Total
	Shelter	Social Services	Meal Service	Intensive Case Management Services	Volunteer	Total Program Services	Management and General	Fundraising and Development	Total Supporting Services	
Salaries and wages	\$ 2,175,258	\$ 1,370,604	\$ 284,615	\$ 413,385	\$ 11,706	\$ 4,255,568	\$ 919,781	\$ 152,316	\$ 1,072,097	\$ 5,327,665
Payroll taxes and employee benefits	473,405	321,674	72,922	91,912	3,328	963,241	149,712	33,127	182,839	1,146,080
Total compensation	2,648,663	1,692,278	357,537	505,297	15,034	5,218,809	1,069,493	185,443	1,254,936	6,473,745
Guest and housing assistance	564,185	4,143,428	--	6,218	--	4,713,831	2,212	--	2,212	4,716,043
Rent (including donated use of facilities of \$783,853)	821,069	82,989	71,321	14,908	1,150	991,437	33,518	3,906	37,424	1,028,861
Food (including donated food of \$578,370)	102,430	2,025	616,681	--	19	721,155	3,093	203	3,296	724,451
Depreciation	262,022	49,726	29,171	11,466	509	352,894	23,137	3,262	26,399	379,293
Outside services	5,296	134,790	--	--	1,180	141,266	152,848	1,069	153,917	295,183
Supplies	270,335	18,986	--	--	--	289,321	561	--	561	289,882
Utilities	115,871	40,635	63,300	21,203	162	241,171	15,071	1,566	16,637	257,808
Professional fees	1,764	126,559	--	43,267	--	171,590	52,990	3,230	56,220	227,810
Equipment	1,516	91,149	--	--	--	92,665	50,472	--	50,472	143,137
Repairs and maintenance	62,081	35,212	2,511	8,128	68	108,000	10,417	2,395	12,812	120,812
Advertising and promotion	871	12,966	32	224	--	14,093	101,889	4,188	106,077	120,170
Communications	31,544	14,379	993	4,226	1,314	52,456	37,378	31	37,409	89,865
Printing	2,900	10,619	601	1,052	--	15,172	71,724	1,590	73,314	88,486
Waste management	59,410	8,708	5,190	1,119	--	74,427	7,465	2,541	10,006	84,433
Vehicle	22,595	28,779	7,527	8,182	--	67,083	2,842	99	2,941	70,024
Insurance	--	(23)	--	--	--	(23)	18,633	50,808	69,441	69,418
Bank and payroll service fees	68,871	--	--	--	--	68,871	--	--	--	68,871
Training & education	2,655	17,895	--	--	--	20,550	42,864	--	42,864	63,414
Dues & subscriptions	60	1,117	--	--	--	1,177	50,210	9,233	59,443	60,620
Postage	1,908	4,814	--	1,067	--	7,789	27,747	339	28,086	35,875
Miscellaneous	507	1,633	--	24	--	2,164	10,862	2,042	12,904	15,068
Interest expense	--	--	--	--	--	--	6,048	--	6,048	6,048
Investment Expense	--	--	--	--	--	--	56	--	56	56
Total functional expenses	\$ 5,046,553	\$ 6,518,664	\$ 1,154,864	\$ 626,381	\$ 19,436	\$ 13,365,898	\$ 1,791,530	\$ 271,945	\$ 2,063,475	\$ 15,429,373

See accompanying notes to financial statements.

IHS, The Institute for Human Services, Inc.
STATEMENTS OF CASH FLOWS
Fiscal Years Ended June 30, 2018 and 2017

	2018	2017
Cash flows from operating activities		
Change in net assets	\$ 4,306	\$ 935,892
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	336,246	379,293
Change in value of split-interest agreements	289	(44,251)
Donated vehicle	--	(6,621)
(Increase) decrease in:		
Grants receivable	480,282	(970,371)
Interest receivable	(411)	(2,180)
Prepaid expenses	(65,359)	(2,959)
Other receivable	21,613	(65,284)
Cash held for others	(28,363)	(22,756)
Security deposits	(15,700)	--
Increase (decrease) in:		
Accounts payable	51,651	109,939
Accrued liabilities	160,833	40,062
Deferred revenue	(665,553)	203,833
Cash held for others	28,363	22,756
Total adjustments	303,891	(358,539)
Net cash provided by operating activities	308,197	577,353
Cash flows from investing activities		
Acquisition of property and equipment	(73,036)	(578,418)
Net cash used in investing activities	(73,036)	(578,418)
Cash flows from financing activities		
Borrowings on line of credit	--	300,000
Repayments on line of credit	(300,000)	--
Net cash (used in) provided by financing activities	(300,000)	300,000
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(64,839)	298,935
Cash and cash equivalents at beginning of fiscal year	650,493	351,558
Cash and cash equivalents at end of fiscal year	\$ 585,654	\$ 650,493
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	\$ 13,355	\$ 6,048
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING ACTIVITIES		
Donated vehicle	\$ --	\$ 6,621

See accompanying notes to the financial statements.

IHS, The Institute for Human Services, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE A - NATURE OF ACTIVITIES

IHS, The Institute for Human Services, Inc. (IHS) is a comprehensive social service agency focused wholly on the needs of homeless persons or those on the precipice of losing their housing. Services include: individualized assessment and triage for housing crisis, emergency shelter and meals, food distribution, supportive counsel and case management for persons with special needs, housing placement and support, core employment services, and support and access to health care. Adult men and women, and families with children are served. These services are provided with compassion and respect while cultivating a spirit of *kuleana* or self-responsibility.

Revenues are provided primarily from contractual arrangements with various governmental departments and agencies with county, state and federal funds. Other sources of revenues include grants from trusts and foundations, program service fees, and contributions.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

- (1) ***Basis of accounting and financial statement presentation*** - The financial statements of IHS have been prepared on the accrual basis of accounting consistent with accounting principles generally accepted in the United States of America. Net assets, public support and revenues and expenses are classified based upon the existence or absence of donor-imposed restrictions. Accordingly, net assets of IHS and changes therein are classified and reported as follows:

Unrestricted - Net assets which are free of donor-imposed restrictions; all revenues, expenses, gains and losses that are not changes in temporarily or permanently restricted net assets.

Temporarily Restricted - Net assets whose use by IHS is limited by donor-imposed stipulations that either expire by passage of time or that can be fulfilled by actions of IHS pursuant to those stipulations.

Permanently Restricted - Net assets whose use is limited by donor-imposed restrictions that neither expire with the passage of time nor can be fulfilled or otherwise removed by actions of IHS.

- (2) ***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 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.
- (3) ***Cash and cash equivalents*** - IHS considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.
- (4) ***Grants receivable and other receivable*** - Grants receivable and other receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to grants and other receivable.

IHS, The Institute for Human Services, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

As of June 30, 2018 and 2017, management has established an allowance for grants receivables of \$230,000 and \$-0-, respectively. As of June 30, 2018 and 2017, management established an allowance for other receivables of \$98,000 and \$4,341, respectively.

- (5) **Property and equipment** - Building improvements, computers and equipment and autos and trucks are recorded at cost or fair value at the date of donation. Acquisitions of property and equipment in excess of \$1,000 and a useful life over one year are capitalized. Depreciation and amortization are calculated using the straight-line method based on the estimated useful lives of the assets which range from 3 to 40 years.

Building improvements are amortized over the terms of the related leases or the estimated useful life of the assets, whichever is shorter.

Expenditures for maintenance, repairs, and minor renewals are charged to expense; expenditures for betterments are capitalized. Property retired or otherwise disposed of is removed from the appropriate asset and related accumulated depreciation accounts. Gains and losses on sale of assets are reflected in current operations.

Long-lived assets held and used by IHS are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In the event that facts and circumstances indicate that the cost of any long-lived assets may be impaired, an evaluation of recoverability would be performed.

- (6) **Recognition of governmental grant revenues** - Government grants are received from the federal, state and city government. Revenues on cost reimbursement contracts are recognized when allowable and reimbursable expenses are incurred, and upon meeting the legal and contractual requirements of the funding source. Revenues on fee for service contracts are recognized when the services required by the contractual agreements are satisfactorily performed. These revenues are generally considered exchange transactions, and are thereby recorded as revenues of the unrestricted net asset class. Funding received in advance of the applicable revenue recognition criteria is recorded as deferred revenue in the statements of financial position.

- (7) **Restricted and unrestricted revenue and support** - Contributions, revenues, and support are recorded in the period earned as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the grantor or donor is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a 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 statements of activities as net assets released from restrictions.

- (8) **Donated services** - Donated services are recognized as contributions if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by IHS. Significant and essential donated services are performed by various individuals and businesses to support IHS's programs and fundraising activities. These services have not been reflected in the financial statements as the criteria for recognition were not met.

IHS, The Institute for Human Services, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

IHS leases its premises at an amount which is below normal market amounts. IHS recognizes the excess of the fair value over the actual amount assessed as donated use of facility and expenses.

In addition, IHS receives various donated goods and food for its shelter facilities. Items received are recognized at fair value and have been reflected as donated food and expenses in the financial statements.

- (9) **Functional allocation of expenses** - The costs of providing the various programs and other activities are summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services based on direct costs incurred and management's estimate of resources consumed by these functions.
- (10) **Advertising costs** - IHS uses advertising to inform the general public of its services. IHS expenses the production costs of advertising the first time the advertising takes place.
- (11) **Income taxes** - IHS is a nonprofit organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes. IHS has been classified as an entity that is not a private foundation within the meaning of Section 509(a) and qualifies for deductible contributions as provided in Section 170(b)(1)(A)(vi).

IHS recognizes the financial statement effects from a tax position only after determining that the relevant tax authority would more likely than not sustain the position after an audit based on technical merits of the position. IHS has not identified any uncertain tax positions in filed returns that require disclosure in the accompanying financial statements.

IHS is not subject to income taxes in the U.S. federal jurisdiction and the State of Hawaii. Tax regulations within each jurisdiction are subject to interpretation of the related tax laws and regulations and require significant judgment to apply.

- (12) **Reclassification** - Certain balances in the prior year financial statements have been reclassified for comparative purposes to conform with the current year presentation. Such reclassification had no effect on the previously reported change in net assets.
- (13) **Subsequent events** - Management has evaluated subsequent events through February 15, 2019, the date on which the financial statements were available to be issued. There were no subsequent events that required adjustment of or disclosure in the financial statements.

NOTE C - LINE OF CREDIT

IHS has a \$500,000 revolving line of credit with a bank, bearing interest at base rate (4.375% at June 30, 2018), plus 1.50% (5.875% at June 30, 2018) secured by assets of IHS. This line of credit expires on October 1, 2018. At June 30, 2018 and 2017, the amount of outstanding borrowings on the line of credit was \$-0- and \$300,000, respectively. Total interest expense on this line of credit amounted to \$13,355 and \$6,048, respectively, for the fiscal years ended June 30, 2018 and 2017.

IHS, The Institute for Human Services, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE D - COMMITMENTS

IHS leases space for its men’s shelter under a lease agreement, which expires on October 31, 2040. Under the terms of the lease, the premises shall be used as a community facility for the urban homeless in accordance with the uses permitted by law and conditions of a Development Agreement between the City and County of Honolulu (City) and the landlord, who leases the land from the City. IHS leases the shelter at no rental cost.

IHS also leases space for its women’s and family shelter under a lease agreement, which expires on September 30, 2035. Under the terms of the lease, the premises shall be used exclusively as an emergency shelter for single women and families who are experiencing homelessness. IHS leases the shelter at \$1 per year from the City.

NOTE E - RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets are comprised of funds received for restricted purposes by the donor. Net assets are released from donor restrictions primarily by incurring expenses, which satisfy the restricted purposes, or after a specified date. At June 30, 2018 and 2017, temporarily restricted net assets were available for the following purposes:

	<u>2018</u>	<u>2017</u>
Case management	\$ 349,474	\$ 321,837
Urgent care	118,619	44,552
Supportive housing	78,800	33,877
Building maintenance and operations	77,697	77,697
Homeless family support	64,321	72,244
Employment program	57,343	11,101
Other	51,743	46,890
Homeless women and families	38,615	37,285
Children support	10,510	--
Food support	7,500	15,000
Learning center repairs	4,000	3,000
Capacity building and strategic planning	<u>2,170</u>	<u>8,161</u>
	<u>\$ 860,792</u>	<u>\$ 671,644</u>

IHS, The Institute for Human Services, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE E - RESTRICTIONS ON NET ASSETS (Continued)

IHS's permanently restricted net assets consisted of the following:

In 1991, IHS received an endowment contribution of \$1,000,000 from the Harry and Jeanette Weinberg Foundation (Foundation). On February 1, 2006, IHS received an additional endowment contribution of \$200,000 from the Foundation. The income from the endowments is restricted primarily to provide electricity, water, gas, paper products, soap, diapers, food and other basic needs of the homeless, and to provide for the maintenance, repair, and needed improvements to the building.

Terms of the endowment agreement require, among other items, that IHS deposit the endowment in a federally-insured financial institution in the State of Hawaii, and that IHS maintain its tax-exempt and non-private foundation status under the Internal Revenue Code. The endowment contributions are invested in two certificates of deposit totaling \$1,200,000.

IHS is the beneficiary under two perpetual trusts administered by third-party trust companies. IHS recorded its share of the value of the underlying trust assets as a beneficial interest in perpetual trusts totaling \$1,427,129 and \$1,427,418 as of June 30, 2018 and 2017, respectively.

Interpretation of Relevant Law

The board of directors of IHS has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, IHS classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets and maintained as such for appropriation for expenditure by IHS in a manner consistent with the standard of prudence prescribed by UPMIFA and donors' restriction on use. In accordance with UPMIFA, IHS considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of IHS and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) The investment policies of IHS
- (7) Other resources of IHS

IHS, The Institute for Human Services, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE E - RESTRICTIONS ON NET ASSETS (Continued)

Endowment and split-interest agreements and perpetual trusts net asset composition by fund type as of June 30, 2018 and 2017, were as follows:

	2018		
	Temporarily Restricted	Permanently Restricted	Total
Donor restricted	\$ <u> --</u>	\$ <u> 1,200,000</u>	\$ <u> 1,200,000</u>
Total endowment net assets	--	1,200,000	1,200,000
Split-interest agreements and perpetual trusts	<u> --</u>	<u> 1,427,129</u>	<u> 1,427,129</u>
Total net assets	\$ <u> --</u>	\$ <u> 2,627,129</u>	\$ <u> 2,627,129</u>
	2017		
	Temporarily Restricted	Permanently Restricted	Total
Donor restricted	\$ <u> --</u>	\$ <u> 1,200,000</u>	\$ <u> 1,200,000</u>
Total endowment net assets	--	1,200,000	1,200,000
Split-interest agreements and perpetual trusts	<u> --</u>	<u> 1,427,418</u>	<u> 1,427,418</u>
Total net assets	\$ <u> --</u>	\$ <u> 2,627,418</u>	\$ <u> 2,627,418</u>

Changes in endowment and split-interest agreements and perpetual trusts net assets for the fiscal years ended June 30, 2018 and 2017, were as follows:

	2018		
	Temporarily Restricted	Permanently Restricted	Total
Balance at June 30, 2017	\$ --	\$ 2,627,418	\$ 2,627,418
Net investment income	22,830	--	22,830
Appropriation of endowment assets for expenditure	(22,830)	--	(22,830)
Change in value of split-interest agreements	<u> --</u>	<u> (289)</u>	<u> (289)</u>
Balance at June 30, 2018	\$ <u> --</u>	\$ <u> 2,627,129</u>	\$ <u> 2,627,129</u>

IHS, The Institute for Human Services, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE E - RESTRICTIONS ON NET ASSETS (Continued)

	2017		
	Temporarily Restricted	Permanently Restricted	Total
Balance at June 30, 2016	\$ 2,470	\$ 2,583,167	\$ 2,585,637
Net investment income	13,433	--	13,433
Appropriation of endowment assets for expenditure	(15,903)	--	(15,903)
Change in value of split-interest agreements	--	44,251	44,251
Balance at June 30, 2017	\$ --	\$ 2,627,418	\$ 2,627,418

Spending and Investment Policy - IHS has a written spending and investment policy as of June 30, 2018. All endowment funds are invested in certificates of deposits as instructed by the donor. Interest income from these certificates of deposits is restricted in its use in accordance with donor stipulations. All decisions for certificate renewals and usage of interest and investment income are determined by the board of directors of IHS.

NOTE F - SPLIT-INTEREST AGREEMENTS

IHS is the beneficiary under two perpetual trusts administered by third-party trust companies with the following terms:

The first trust distributes 18.18% of its net income annually to IHS for its unrestricted use. In 2018 and 2017, the amount of distribution received was \$53,986 and \$51,908, respectively. IHS recorded its 18.18% share of the value of the underlying trust assets in the statements of financial position as a beneficial interest in perpetual trust totaling \$1,204,778 and \$1,208,291 as of June 30, 2018 and 2017, respectively.

The second trust distributes 20% of its net income annually to IHS for its unrestricted use. The total amount of income distributed to the beneficiaries cannot exceed 4% of the underlying trust estate's accounting value, determined as of December 31 of each calendar year. In 2018 and 2017, the amount of distribution received was \$10,302 and \$9,586, respectively. As of June 30, 2018 and 2017, IHS recorded its 20% share of the underlying trust assets in the statements of financial position as a beneficial interest in perpetual trust totaling \$222,351 and \$219,127, respectively.

NOTE G - DONATED FACILITIES AND FOOD

During 2018 and 2017, IHS utilized approximately 48,400 square feet of space for its shelters and operations. The fair market rental at June 30, 2018 and 2017 was estimated at \$735,951 and \$783,853, respectively, which is recorded as donated use of facility and as expense in the statements of activities.

IHS, The Institute for Human Services, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE G - DONATED FACILITIES AND FOOD (Continued)

During 2018 and 2017, IHS served 303,478 and 283,772 meals, respectively. At June 30, 2018 and 2017, IHS paid \$146,599 and \$146,081, respectively, for food which the fair market value was estimated at \$766,193 and \$724,451, respectively. At June 30, 2018 and 2017, this represents a net contribution of \$619,594 and \$578,370, respectively, to IHS, which is recorded as donated food and expense in the statements of activities.

NOTE H - CONCENTRATION OF CREDIT RISK

IHS maintains its cash and cash equivalent accounts in various financial institutions and an investment firm. Cash balances in these accounts are insured up to \$250,000 per account holder by the Federal Deposit Insurance Corporation (FDIC) and up to \$500,000 (with a limit of \$250,000 for cash) by the Securities Investor Protection Corporation. In assessing its concentration of credit risk related to cash and cash equivalents, IHS places its cash and cash equivalents in various institutions, which may at times exceed insurance limits. Management believes that IHS is not exposed to any significant credit risk with respect to its cash and cash equivalents.

IHS also receives a substantial amount of its support from state and federal government agencies. Significant reductions, if any, in the level of this support may have an adverse effect on IHS's programs and activities.

NOTE I - RETIREMENT PLAN

IHS has a 401(k) defined contribution plan that covers substantially all employees completing one year of service, and is at least twenty-one years of age. Participants may elect to defer a percentage of their pretax annual compensation up to the maximum dollar amount allowed by the Internal Revenue Service. Employer matching contributions are made and the amount of the match is determined annually. Profit sharing contributions may also be made at the discretion of the board of directors. Total retirement plan expenses for the fiscal years ended June 30, 2018 and 2017 amounted to approximately \$41,000 and \$40,000, respectively, and is included in payroll taxes and employee benefits.

NOTE J - FAIR VALUE MEASUREMENTS

The framework for measuring fair value provides 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) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices in active markets for identical assets or liabilities that IHS has the ability to access at the measurement date.

IHS, The Institute for Human Services, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE J - FAIR VALUE MEASUREMENTS (Continued)

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The following is a description of the valuation methodology used for assets at fair value. There have been no changes in the methodology used at June 30, 2018 and 2017.

IHS's beneficial interest in perpetual trusts is classified within Level 3. Fair value for the beneficial interest in perpetual trusts is determined by calculating IHS's share of the trust assets as a percentage of the fair market value of the total perpetual trust portfolio.

IHS's assets measured at fair value as of June 30, 2018 and 2017.

Assets at Fair Value as of June 30, 2018				
	Level 1	Level 2	Level 3	Total
Beneficial interest in perpetual trusts	\$ <u> --</u>	\$ <u> --</u>	\$ <u> 1,427,129</u>	\$ <u> 1,427,129</u>
	\$ <u> --</u>	\$ <u> --</u>	\$ <u> 1,427,129</u>	\$ <u> 1,427,129</u>
Assets at Fair Value as of June 30, 2017				
	Level 1	Level 2	Level 3	Total
Beneficial interest in perpetual trusts	\$ <u> --</u>	\$ <u> --</u>	\$ <u> 1,427,418</u>	\$ <u> 1,427,418</u>
	\$ <u> --</u>	\$ <u> --</u>	\$ <u> 1,427,418</u>	\$ <u> 1,427,418</u>

IHS, The Institute for Human Services, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE J - FAIR VALUE MEASUREMENTS (Continued)

The table below sets forth a summary of changes in the fair value of trust assets under beneficial interest in perpetual trusts for the fiscal years ended June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Balance at beginning of fiscal year	\$ 1,427,418	\$ 1,383,167
Change in value in beneficial interest	<u>(289)</u>	<u>44,251</u>
Balance at end of fiscal year	\$ <u>1,427,129</u>	\$ <u>1,427,418</u>

SUPPLEMENTARY INFORMATION

IHS, The Institute for Human Services, Inc.
SCHEDULE OF STATE HOUSING PLACEMENT PROGRAM
CONTRACT WITH THE DEPARTMENT OF HUMAN
SERVICES OF THE STATE OF HAWAII
Fiscal Year Ended June 30, 2018

	<u>State Funds</u>	<u>Federal Funds</u>	<u>Total</u>
Contract Number DHS-18-HPO-5019			
State Homeless Shelter Program			
Contract amount	\$ 1,500,000	\$ --	\$ 1,500,000
Contract expenses - prior period	\$ 416,667	\$ --	\$ 416,667
Contract expenses - current period	1,000,000	--	1,000,000
	<u>\$ 1,416,667</u>	<u>\$ --</u>	<u>\$ 1,416,667</u>
Contract Number DHS-18-HPO-5018			
State Homeless Shelter Program			
Contract amount	\$ 1,500,000	\$ --	\$ 1,500,000
Contract expenses - prior period	\$ 416,667	\$ --	\$ 416,667
Contract expenses - current period	1,000,000	--	1,000,000
	<u>\$ 1,416,667</u>	<u>\$ --</u>	<u>\$ 1,416,667</u>
Contract Number DHS-17-HPO-4125			
State Housing Placement Program 2017-2018			
Contract amount	\$ 778,517	\$ --	\$ 778,517
Contract expenses - prior period	\$ 277,802	\$ --	\$ 277,802
Contract expenses - current period	500,715	--	500,715
	<u>\$ 778,517</u>	<u>\$ --</u>	<u>\$ 778,517</u>
Contract Number DHS-17-HPO-4130			
State Homeless Outreach Program			
Contract amount	\$ 704,000	\$ --	\$ 704,000
Contract expenses - prior period	\$ 195,558	\$ --	\$ 195,558
Contract expenses - current period	432,241	--	432,241
	<u>\$ 627,799</u>	<u>\$ --</u>	<u>\$ 627,799</u>
Contract Number DHS-17-HPO-4130-SA2			
State Homeless Outreach Program			
Contract amount	\$ 586,668	\$ --	\$ 586,668
Contract expenses - prior period	\$ --	\$ --	\$ --
Contract expenses - current period	19,739	--	19,739
	<u>\$ 19,739</u>	<u>\$ --</u>	<u>\$ 19,739</u>
Contract Number DHS-17-HPO-4176			
State Homeless Rapid Re-housing Program			
Contract amount	\$ 468,968	\$ --	\$ 468,968
Contract expenses - prior period	\$ 80,194	\$ --	\$ 80,194
Contract expenses - current period	307,330	--	307,330
	<u>\$ 387,524</u>	<u>\$ --</u>	<u>\$ 387,524</u>
Contract Number DHS-17-HPO-4176-SA2			
State Homeless Rapid Re-housing Program			
Contract amount	\$ 546,210	\$ --	\$ 546,210
Contract expenses - prior period	\$ --	\$ --	\$ --
Contract expenses - current period	18,378	--	18,378
	<u>\$ 18,378</u>	<u>\$ --</u>	<u>\$ 18,378</u>