HEALTHY COMMUNITIES HAWAII
dba THE COALITION FOR A
TOBACCO-FREE HAWAII, INC.

Financial Statements

December 31, 2012 and 2011

HEALTHY COMMUNITIES HAWAII
dba THE COALITION FOR A TOBACCO-FREE HAWAII, INC.

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Wikoff Combs & Co., LLC
Certified Public Accountants

Independent Auditors' Report

Board of Directors
Healthy Communities Hawaii
dba The Coalition for a Tobacco Free Hawaii, Inc.

We have audited the accompanying financial statements of Healthy Communities Hawaii dba The Coalition for a Tobacco Free Hawaii, Inc. (a nonprofit corporation), which comprise the statement of financial position as of December 31, 2012, and the related statements of activities, functional expenses and cash flows for the year 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider 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 Healthy Communities Hawaii as of December 31, 2012, and the changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The 2011 financial statements were reviewed by us and our report thereon, dated September 4, 2012, stated we were not aware of any material modifications that should be made to those statements for them to be in accordance with accounting principles generally accepted in the United States of America. However, a review is substantially less in scope than an audit and does not provide a basis for the expression of an opinion on the financial statements as a whole.

Wikoff Combs & Co., LLC

Honolulu, Hawaii
September 12, 2013

HEALTHY COMMUNITIES HAWAII
dba THE COALITION FOR A TOBACCO-FREE HAWAII, INC.

Statements of Financial Position

December 31, 2012 and 2011

ASSETS

	2012 Audit	2011 Review
Current assets		
Cash	$ 232,298	$ 93,800
Receivables:		
Tobacco Prevention and Control Trust Fund	201,878	294,121
Government contracts	52,967	97,073
Contribution	19,000	-
Total receivables	273,845	391,194
Total current assets	506,143	484,994
Furniture and equipment	16,206	13,954
Less accumulated depreciation	8,623	5,701
Net furniture and equipment	7,583	8,253
Other asset		
Deposits	2,875	7,800
Total assets	$ 516,601	$ 501,047

LIABILITIES AND NET ASSETS

	2012 Audit	2011 Review
Current liabilities		
Accounts payable	$ 92,693	$ 138,986
Accrued payroll and vacation	32,370	38,892
Total current liabilities	125,063	177,878
Net assets		
Unrestricted	348,912	299,293
Temporarily restricted	42,626	23,876
Total net assets	391,538	323,169
Total liabilities and net assets	$ 516,601	$ 501,047

See independent auditors' report.

HEALTHY COMMUNITIES HAWAII
dba THE COALITION FOR A TOBACCO-FREE HAWAII, INC.

Statements of Activities

For the Years Ended December 31, 2012 and 2011

	Unrestricted		Temporarily Restricted		Total	
	2012 Audit	2011 Review	2012 Audit	2011 Review	2012 Audit	2011 Review
Support and revenue						
Tobacco Prevention and Control Trust Fund	$ -	$ -	$ 750,000	$ 758,000	$ 750,000	$ 758,000
Government contracts	368,826	395,882	-	-	368,826	395,882
Contributions	6,500	52,002	53,936	-	60,436	52,002
Other income	1,438	1,913	-	-	1,438	1,913
Special events, net of direct expenses of $12,516 in 2012 and $14,857 in 2011	12,319	13,228	-	-	12,319	13,228
Net assets released from restrictions	785,186	778,544	(785,186)	(778,544)	-	-
Total support and revenue	1,174,269	1,241,569	18,750	(20,544)	1,193,019	1,221,025
Expenses						
Program services	1,001,176	1,008,636	-	-	1,001,176	1,008,636
Supporting services:						
Management and general	78,846	105,809	-	-	78,846	105,809
Fund-raising	44,628	42,790	-	-	44,628	42,790
Total supporting services	123,474	148,599	-	-	123,474	148,599
Total expenses	1,124,650	1,157,235	-	-	1,124,650	1,157,235
Changes in net assets	49,619	84,334	18,750	(20,544)	68,369	63,790
Net assets, beginning of year	299,293	214,959	23,876	44,420	323,169	259,379
Net assets, end of year	$ 348,912	$ 299,293	$ 42,626	$ 23,876	$ 391,538	$ 323,169

See independent auditors' report.

HEALTHY COMMUNITIES HAWAII
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Statements of Functional Expenses

For the Years Ended December 31, 2012 and 2011

	Program Services		Supporting Services						Total Expenses	
			Management and General		Fund-raising		Total Supporting Services			
	2012 Audit	2011 Review	2012 Audit	2011 Review	2012 Audit	2011 Review	2012 Audit	2011 Review	2012 Audit	2011 Review
Leased employee costs	$ 413,139	$ 401,962	$ 38,710	$ 73,163	$ 15,874	$ 30,249	$ 54,584	$ 103,412	$ 467,723	$ 505,374
Youth advocacy contract	278,059	273,153	-	-	-	-	-	-	278,059	273,153
Professional and contract services	133,852	156,201	21,180	16,603	20,981	3,387	42,161	19,990	176,013	176,191
Travel and transportation	30,938	43,909	6,933	5,734	227	451	7,160	6,185	38,098	50,094
Occupancy	29,176	28,798	6,062	4,680	2,486	2,520	8,548	7,200	37,724	35,998
Printing and copying	25,945	15,908	131	136	54	82	185	218	26,130	16,126
Training and development	23,727	15,619	619	943	79	-	698	943	24,425	16,562
Meetings	18,137	17,895	1,396	1,368	102	-	1,498	1,368	19,635	19,263
Telecommunication services	14,899	14,816	1,656	1,338	677	698	2,333	2,036	17,232	16,852
Supplies	14,451	12,960	-	-	-	-	-	-	14,451	12,960
Other expenses	7,842	11,084	611	143	2,901	4,487	3,512	4,630	11,354	15,714
Office expenses	8,751	10,683	1,078	784	1,054	422	2,132	1,206	10,883	11,889
Depreciation	2,260	1,934	470	314	193	169	663	483	2,923	2,417
Insurance	-	3,714	-	603	-	325	-	928	-	4,642
Total expenses	$ 1,001,176	$ 1,008,636	$ 78,846	$ 105,809	$ 44,628	$ 42,790	$ 123,474	$ 148,599	$ 1,124,650	$ 1,157,235

See independent auditors' report.

HEALTHY COMMUNITIES HAWAII
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Statements of Cash Flows

For the Years Ended December 31, 2012 and 2011

	2012 Audit	2011 Review
Cash flows from operating activities		
Changes in net assets	$ 68,369	$ 63,790
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	2,923	2,417
(Increase) decrease in assets:		
Tobacco Prevention and Control Trust Fund receivable	92,243	(112,649)
Government contracts receivable	44,106	(44,592)
Contribution receivable	(19,000)	10,000
Security deposit	4,925	(5,000)
Increase (decrease) in liabilities:		
Accounts payable	(46,294)	104,863
Accrued payroll and vacation	(6,522)	8,337
Net cash provided by operating activities	140,750	27,166
Cash flows from investing activities		
Purchase of office equipment	(2,252)	(2,759)
Net increase in cash	138,498	24,407
Cash at beginning of year	93,800	69,393
Cash at end of year	$ 232,298	$ 93,800

See independent auditors' report.

Organization and Operations

The Coalition for a Tobacco-Free Hawaii (Organization) was incorporated in the State of Hawaii in October 2006 as a nonprofit organization with the sole mission to reduce tobacco use through education, community systems change and advocacy. Effective 2012, the Organization expanded its mission to also improve the health and quality of life in Hawaii. The Organization changed its name to Healthy Communities Hawaii to better reflect the expanded mission.

The Organization receives the majority of its support and revenue from the Tobacco Prevention and Control Trust Fund, government contracts and private contributions.

The Organization 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. The Organization has also 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).

1. Significant Accounting Policies

Basis of Accounting

The Organization prepares its financial statements in accordance with generally accepted accounting principles promulgated in the United States of America for not-for-profit organizations. The significant accounting and reporting policies used by the Organization are described below to enhance the usefulness and understandability of the financial statements.

Basis of Presentation

The Organization reports information regarding its financial position and activities according to three classes of net assets:

Unrestricted net assets are not restricted by donors, or donor-imposed restrictions have expired.

Temporarily restricted net assets contain donor-imposed restrictions that permit the Organization to use or expend the assets as specified. The restrictions are satisfied either by the passage of time or by action of the Organization.

Permanently restricted net assets contain donor-imposed restrictions that stipulate the resources be maintained permanently, but permit the Organization to use or expend part or all of the income derived from the donated assets for either specified or unspecified purposes. The Organization has no permanently restricted net assets.

1. Significant Accounting Policies, continued

Recognition of Government Revenue

Government contracts are received from State agencies. 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 from 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. Government contract receivables are recorded in the financial statements when allowable expenses have been incurred but have not been reimbursed.

Furniture and Equipment

Furniture and equipment in excess of $1,000 are recorded at cost when purchased or at estimated fair market value at the date of donation. Depreciation is calculated using the straight-line method based on their respective estimated useful lives ranging from five to seven years.

The costs of repairs and maintenance and depreciation are charged to expense. Upon disposition, the related cost and accumulated depreciation are removed from the accounts and the resulting gains or losses are reflected in the financial statements.

Contributions

Contributions are recognized as support when they become unconditional promises to give, at their fair value. The Organization records contributions as temporarily restricted if they are received with donor stipulations that limit their use, either through purposes or time restrictions, and those stipulations have not expired.

When donor restrictions expire in subsequent years, that is, when a purpose restriction is fulfilled or a time restriction ends, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the financial statements as net assets released from restrictions.

HEALTHY COMMUNITIES HAWAII
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Notes to Financial Statements

December 31, 2012 and 2011

1. Significant Accounting Policies, continued

Donated Services

Donations of services requiring specific expertise that would otherwise have been required to be purchased are recorded as support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated services to a specific purpose.

Leases

Leases that transfer substantially all of the risks and benefits of ownership are considered capital leases. Other leases are classified as operating leases. Capital leases are amortized using the straight-line method over the lesser of their lease term or their estimated useful lives.

Functional Classification of Expenses

The cost of providing various programs and supporting services has been summarized on a functional basis in the financial statements. Accordingly, certain costs have been allocated among program and supporting services benefited, based on the direct cost incurred and management's estimate of resources consumed by the functions.

Use of Estimates

Preparing financial statements according to generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts of assets and liabilities reported, the disclosure of contingent assets and liabilities, and the revenues and expenses reported during the stated period. Actual results could differ from management's estimates.

Income Taxes

Management is required to ascertain the effect of uncertain tax positions to be recognized in the financial statements if they are more likely than not to fail upon regulatory examination. Management is not aware of any uncertain tax positions. Tax returns are open for examination by the taxing authorities until the statute of limitations (generally three years) expires.

1. Significant Accounting Policies, continued

Subsequent Events

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.

Change in Presentation

Certain amounts in the prior year's financial statements have been reclassified for comparative purposes to conform to the current year financial statement presentation.

2. Contribution Receivable

At December 31, 2012, the Organization had $19,000 of contributions receivable, which were received within one year.

3. Line of Credit

The Organization has a $50,000 bank revolving line of credit available until July 2016. The line of credit is secured by all current and future accounts the Organization maintains with the bank. Interest on the line is 4.99% through July 2011, after which time it increases to the bank's prime rate plus 2.5%.

At December 31, 2012 and 2011, the entire line of credit was available.

4. Lease Commitments

The Organization leases its administrative office under a noncancellable operating lease through December 2013. In addition to the base rent, the Organization is required to pay general excise tax and a prorata share of building operating expenses. Rent expense for the years ended December 31, 2012 and 2011, was $37,724 and $35,998, respectively.

The Organization also leases a copier under a noncancellable operating lease through December 2013, for $347 per month.

Future minimum lease payments of $18,700 are due in 2013.

5. Restrictions on Net Assets

Temporarily restricted net assets are released from donor restrictions primarily by incurring expenses that satisfy the restricted purposes. At December 31, 2012 and 2011, net assets of $42,626 and $23,876, respectively, were restricted for program services.

6. Employee Benefit Plan

The Organization offers a 401(k) retirement plan through its employee leasing service company that covers all leased employees who have met certain age requirements. Leased employees may make contributions through payroll deductions. During 2012 and 2011, the Organization elected to make discretionary matching contributions of $5,660 and $6,721, respectively, which are included in the Statements of Functional Expenses.

7. Leased Employees

The Organization contracts an employee leasing company to manage all duties and responsibilities associated with payroll and human resources of the Organization's personnel.

8. Economic Dependency/Financial Support

The Hawaii Tobacco Prevention and Control Trust Fund (Trust Fund) was created in 1999, as a result of the State of Hawaii's settlement reached between five major tobacco manufacturers and 46 states to recover health care costs for tobacco-related illnesses. Dedicated money for tobacco prevention, control and cessation has decreased over the years. In 2009, the flow of dollars into the Trust Fund was cut from 12.5% to 6.5%, and in 2011, the Legislature diverted the stream of funding completely for two years resulting in 0% of new Tobacco Settlement dollars going towards tobacco prevention and control. The 6.5% will return to the trust fund in fiscal year 2014. Currently, all tobacco prevention and control projects (including the Organization's grant), as well as the State's Quitline are still being funded through the Trust Fund, taking the money from the corpus of the fund rather than the income stream.

The Organization received approximately 63% and 62% of its support and revenue from the Trust Fund in 2012 and 2011, respectively. A significant reduction in the level of this support, if this were to occur, could have an adverse effect on the Organization's programs and activities.