FAMILY SUPPORT SERVICES OF WEST HAWAII
(A Hawaii Nonprofit Corporation)

AUDITED COMBINED FINANCIAL STATEMENTS
(With Independent Auditor's Report)

FOR THE YEAR ENDED JUNE 30, 2018
(With Comparative Totals for the Year Ended June 30, 2017)

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Carbonaro CPAs & Management Group

Certified Public Accountants
Member: AICPA
HSCPA

INDEPENDENT AUDITOR'S REPORT

To Management and the Board of Directors of
Family Support Services of West Hawaii
Kailua-Kona, Hawaii 96740

Report on the Financial Statements

We have audited the accompanying combined financial statements of Family Support Services of West Hawaii (a nonprofit organization) and affiliate, which comprise the combined statements of financial position as of June 30, 2018, and the related combined statements of activities, functional expenses, changes in net assets, and cash flows for the year then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined 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 combined financial statements based on our audit. We conducted our audit 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Maui:
1885 Main Street, Suite 408 • **Wailuku**, Hawaii 96793
310 Ohukai Road, Suite 305 • **Kihei**, Hawaii 96753
Phone: 808.242.5002

Big Island:
Location: 136 Kinoole Street • **Hilo**, Hawaii 96720
Mailing: P.O. Box 4372 • Hilo, Hawaii 96720
Phone: 808.930.6850

www.carbocpa.com

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Family Support Services of West Hawaii and affiliate as of June 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Family Support Services of West Hawaii financial statements, and our report dated December 5, 2017, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Expenditures of Federal Awards on page 15, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,* is presented for purposes of additional analysis and is not a required part of the combined 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 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 December 5, 2018, on our consideration of Family Support Services of West Hawaii and affiliates' internal control over combined 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 to describe the scope of our testing of internal control over combined financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over combined financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Family Support Services of West Hawaii and affiliates' internal control over combined financial reporting and compliance.

Carbonaro CPAs & Management Group

Hilo, Hawaii
December 5, 2018

FAMILY SUPPORT SERVICES OF WEST HAWAII

Combined Statements of Financial Position
As of June 30, 2018 and 2017

ASSETS

	2018	2017
CURRENT ASSETS		
Cash and Cash Equivalents (Note 2)	$ 160,498	$ 350,787
Accounts Receivable - Grants and Contracts (Note 2)	788,446	544,261
Prepaid Expenses	40,518	39,508
Total Current Assets	989,462	934,556
PROPERTY AND EQUIPMENT (Note 2)		
Vehicles	273,082	259,988
Equipment - Restricted	133,954	133,954
Leasehold Improvements	108,883	108,883
	515,919	502,825
Accumulated Depreciation	(400,393)	(439,229)
Net Property and Equipment	115,526	63,596
OTHER ASSETS		
Investments (Note 4)		
Vanguard Balanced Index Fund-Building	30,674	29,493
Vanguard Balanced Index Fund	59,647	53,630
Vanguard Equities	854	534
Total Investments	91,175	83,657
Security Deposits	15,049	15,049
Total Other Assets	106,224	98,706
TOTAL ASSETS	$ 1,211,212	$ 1,096,858

The accompanying notes are an integral part of these financial statements.

FAMILY SUPPORT SERVICES OF WEST HAWAII

Combined Statements of Financial Position
As of June 30, 2018 and 2017

LIABILITIES AND NET ASSETS

	2018	2017
CURRENT LIABILITIES		
Accounts Payable	$ 59,283	$ 34,513
Accrued Payroll Expenses	107,346	113,830
Total Current Liabilities	166,629	148,343
NET ASSETS (Note 3)		
Unrestricted	904,492	810,749
Board Designated	28,800	28,800
Total Unrestricted	933,292	839,549
Temporarily Restricted	88,291	85,966
Permanently Restricted	23,000	23,000
Total Net Assets	1,044,583	948,515
TOTAL LIABILITIES AND NET ASSETS	$ 1,211,212	$ 1,096,858

The accompanying notes are an integral part of these financial statements.

FAMILY SUPPORT SERVICES OF WEST HAWAII

Combined Statement of Activities

For the Year Ended June 30, 2018

(With Comparative Totals for the Year Ended June 30, 2017)

	2018				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	2017 Total
PUBLIC SUPPORT					
Government Contracts - State and County	$ 147,013	$ -	$ -	$ 147,013	$ 156,920
Federal Contracts and Pass-through Funds	2,516,093	-	-	2,516,093	2,404,362
	2,663,106	-	-	2,663,106	2,561,282
CONTRIBUTIONS AND REVENUE					
Grants from Foundations and Others	126,351	113,378	-	239,729	217,670
Contributions	68,956	3,212	-	72,168	328,528
In-Kind Revenue (Note 13)	59,101	-	-	59,101	59,101
Interest Income	653	-	-	653	135
Gain on Asset Disposal	-	-	-	-	5,500
Unrealized Gains	7,198		-	7,198	7,901
	262,259	116,590	-	378,849	618,835
Total Public Support, Contributions and Revenue	2,925,365	116,590	-	3,041,955	3,180,117
Net Assets Released from Restrictions	114,265	(114,265)	-	-	-
EXPENSES					
Programs:					
Early Childhood	2,057,446	-	-	2,057,446	2,006,812
Healthy Start	324,566	-	-	324,566	365,439
Youth Development	8,328	-	-	8,328	44,101
Other Programs	163,507	-	-	163,507	84,728
Total Programs	2,553,847	-	-	2,553,847	2,501,080
Fundraising	13,484	-	-	13,484	10,194
Management and General	378,556	-	-	378,556	406,023
Total Expenses	2,945,887	-	-	2,945,887	2,917,297
Change in Net Assets	$ 93,743	$ 2,325	$ -	$ 96,068	$ 262,820

The accompanying notes are an integral part of these financial statements.

FAMILY SUPPORT SERVICES OF WEST HAWAII

Combined Statement of Functional Expenses
For the Year Ended June 30, 2018
(With Comparative Totals for the Year Ended June 30, 2017)

	2018				
	Program Services	Management and General	Fundraising	Total	2017 Total
Wages	$1,304,796	$ 226,466	$ 4,440	$1,535,702	$1,602,093
Payroll Taxes and Benefits (Note 6)	406,807	62,056	1,802	470,665	468,532
Outside Services	207,871	908	-	208,779	103,543
Occupancy	154,013	18,019	-	172,032	140,472
Supplies	121,853	11,498	-	133,351	143,396
Training, Travel and Conference	83,899	6,604	-	90,503	93,418
Equipment and Vehicle Expense	51,271	10,994	-	62,265	59,639
In-kind Expense (Note 13)	59,101	-	-	59,101	59,101
Insurance	31,341	3,482	-	34,823	37,012
Telephone	29,106	2,341	-	31,447	31,492
Project Expenses	26,288	-	-	26,288	20,325
Professional Fees	4,997	20,026	-	25,023	60,042
Utilities	19,384	3,501	-	22,885	20,801
Mileage Reimbursement	16,600	342	92	17,034	23,690
Postage, Printing and Advertising	8,865	4,393	-	13,258	6,767
Depreciation	11,758	-	-	11,758	19,221
Client Assistance	10,123	-	-	10,123	13,489
Direct Fundraising Expense	-	-	7,150	7,150	2,087
Dues and Membership	2,676	3,939	-	6,615	6,671
Other Expenses	3,098	-	-	3,098	1,371
Fees	-	2,957	-	2,957	4,033
Bad Debt Expense	-	1,030	-	1,030	102
Total Expenses	$2,553,847	$ 378,556	$ 13,484	$ 2,945,887	$ 2,917,297

The accompanying notes are an integral part of these financial statements.

FAMILY SUPPORT SERVICES OF WEST HAWAII

Combined Statements of Changes in Net Assets
For the Years Ended June 30, 2018 and 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Assets
Net Assets, June 30, 2016	$ 597,837	$ 64,858	$ 23,000	$ 685,695
Change in Net Assets	241,712	21,108	-	262,820
Net Assets, June 30, 2017	$ 839,549	$ 85,966	$ 23,000	$ 948,515
Change in Net Assets	93,743	2,325	-	96,068
Net Assets, June 30, 2018	$ 933,292	$ 88,291	$ 23,000	$ 1,044,583

The accompanying notes are an integral part of these financial statements.

FAMILY SUPPORT SERVICES OF WEST HAWAII

Combined Statements of Cash Flows
For the Years Ended June 30, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Government Agencies	$ 2,419,818	$ 2,353,721
Cash Received from Nongovernmental Contracts, Grantors, Donors and Other Receipts	311,897	546,198
Interest Income	653	135
Cash Paid to Employees and Vendors	(2,858,969)	(2,850,562)
Net Cash Provided (Used) by Operating Activities (Note 7)	(126,601)	49,492
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sale of Fixed Assets	-	5,500
Purchase of Fixed Assets	(63,688)	-
Net Cash Provided (Used) by Investing Activities	(63,688)	5,500
CASH FLOWS FROM FINANCING ACTIVITIES	-	-
Net Increase (Decrease) in Cash for the Year	**(190,289)**	**54,992**
CASH BALANCE, BEGINNING OF YEAR	350,787	295,795
CASH BALANCE, END OF YEAR	$ 160,498	$ 350,787

The accompanying notes are an integral part of these financial statements.

Note 1. ORGANIZATION

Family Support Services of West Hawaii (FSSWH) was incorporated in April, 1981 as a non-profit corporation under the laws of the State of Hawaii. The FSSWH's mission is to support families and communities in providing love and care for our children. In fulfilling this mission, the FSSWH operates programs that assist and support families with children. Funding for the programs is primarily through government contracts and various foundation grants. Family Support Services of West Hawaii operate facilities and programs in Kailua-Kona, Waimea, Hilo, and Ka`u on the Big Island of Hawaii.

Island Therapeutic Specialists (ITS) is a limited liability corporation organized in July 2013 under the laws of the State of Hawaii. Family Support Services of West Hawaii acquired ITS during 2016. Intercompany transactions have been incorporated into the combined financial statements. Collectively, Family Support Services of West Hawaii and Island Therapeutic specialists are referred to as the Organization.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue and Expense Recognition: The Organization uses the accrual method of accounting. Under this method of accounting, exchange revenue is recognized when earned rather than when received and expenses are recognized when incurred rather than when paid. For contributions and donations, revenue is recognized when the gift is received. For grants, revenue is recognized as the applicable requirements are fulfilled.

Property and Equipment: Property and equipment are stated at cost. Depreciation is computed on the straight-line basis over the estimated useful lives of the assets, which range from 3 to 15 years. The Organization capitalizes expenses over $5,000 and a useful life of more than one year. Donated property and equipment are recorded as revenue at their estimated fair value. Such donations are reported as unrestricted revenue unless the donor has restricted the donated asset to a specific purpose.

Assets purchased with contract funds revert back to the grantee organization upon termination of their intended use. However, management intends to use the assets for their intended purposes for the life of the assets and the likelihood of the assets ever having to be returned to the grantors is remote.

Cash and Cash Equivalents: For the purpose of the combined statement of cash flows, cash is defined as demand deposits, petty cash on hand and savings accounts.

Accounts Receivable: Accounts receivable represent revenue earned and not yet received from grants and contracts. Accounts receivable are written off when management determines they will not be collected. Management analyzes the allowance for doubtful accounts based on the current make up of the accounts receivable balance and past history. Based on this analysis, management has determined an allowance for doubtful accounts is not necessary as of June 30, 2018 and 2017.

Deferred Revenue: Deferred revenue represents funds received from government and foundation contracts which were not yet earned. Most of the contracts allow for these funds to be used and thus, earned in the subsequent year. There was no deferred revenue balance at June 30, 2018 and 2017.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates: The preparation of combined financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 3. NET ASSETS

Family Support Services of West Hawaii has conformed to *FASB ASC 958-210-45-9* "Not for profit entities, Classifications of Net Assets". Accordingly, the Organization is required to report 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. Grants and other contributions of cash and other assets are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor 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 statement of activities as net assets released from restrictions. If the Organization receives a temporarily restricted donation and the restriction is met during the year it is reported as unrestricted.

Temporarily restricted net assets represent restricted grants and funds received from foundations and donors for which the restriction had not yet been fulfilled and consist of the following at June 30:

	2018	2017
Newborn Enhanced Support Team	$ 43,643	$ 40,882
ECE - First Foods	29,803	23,693
Agency Project	11,633	-
Castle Grant	3,212	3,212
Fatherhood Initiative	-	15,696
ECE Marshallese	-	1,864
ECE - Learn and Play Group	-	619
Total	$ 88,291	$ 85,966

Permanently restricted net assets of $23,000 represent endowment funds received from donors subject to the restrictions of gift instruments requiring the principal to be maintained intact and only the investment income to be used to provide sustainable funding of programs and services which support the mission of Family Support Services of West Hawaii. Investment income from certain endowment funds is restricted for specified purposes.

The Uniform Prudent Management of Institutional Funds Act (UPMIFA) applies to nonprofit organizations in Hawaii. UPMIFA updates the prudence standard for the management and investment of charitable funds, and it amends the provisions governing the release and modification of restrictions on charitable funds. Management has evaluated the provisions of the standard and has concluded that the adoption of UPMIFA in fiscal year 2018 did not have a significant effect on the Organization's combined financial statements.

Note 4. INVESTMENTS

Family Support Services of West Hawaii has conformed to *FASB ASC 820-10-50-1* which establishes a fair value hierarchy for inputs used in measuring fair market value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on the best information available in the circumstances. This fair value hierarchy consists of three broad levels:

- Level 1 inputs consist of unadjusted quoted prices in active markets such as stock exchanges for identical assets and have the highest priority.
- Level 2 inputs consist of significant other observable inputs such as quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset and liability, either directly or indirectly, for substantially the full term of the combined financial instrument.
- Level 3 inputs consist of significant unobservable inputs and include situations where there is little, if any, market activity for the investment. The inputs require significant judgment or estimates, such as those associated with discounted cash flow methodologies and appraisals.

Fair values of assets measured on a recurring basis are as follows, there are no liabilities or other assets measured at fair value on a recurring or non-recurring basis.

Assets	Total 2018	Quoted Prices: Level 1	Significant Other Inputs: Level 2	Significant Non-Observable Inputs: Level 3	Assets	Total 2017	Quoted Prices: Level 1	Significant Other Inputs: Level 2	Significant Non-Observable Inputs: Level 3
Stocks	$ 55,047	$ 55,047	$ -	$ -	Stocks	$ 50,383	$ 50,383	$ -	$ -
Bonds	36,128	36,128			Bonds	33,274	33,274		
Total	$ 91,175	$ 91,175	$ -	$ -	Total	$ 83,657	$ 83,657	$ -	$ -

Note 5. FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the various programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Note 6. 401(k) PLAN

The Organization has a retirement plan with Fish Investments in which there is no limit on employee contributions and the Organization matches up to 3%. For the year ended June 30, 2018 and 2017, the 401(k) retirement plan contributions by the Organization were $53,441 and $29,447, respectively.

Note 7. RECONCILIATION OF CHANGE IN NET ASSETS WITH NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES

	2018	2017
Change in Net Assets	$ 96,068	$ 262,820
Add in Depreciation	11,758	19,221
Unrealized Gain on Investments	(7,198)	(7,901)
Gain on Asset Disposal	-	(5,500)
Bad Debt Expense	1,030	102
Change in Accounts Receivable - Grants and Contracts	(245,215)	(207,561)
Change in Prepaid Expenses	(1,010)	(19,164)
Change in Investment Equity	(320)	-
Change in Security Deposits	-	(2,353)
Change in Accounts Payable	24,770	8,216
Change in Accrued Payroll Expenses	(6,484)	1,612
Net Cash Provided (Used) by Operating Activities	$ (126,601)	$ 49,492

Note 8. LINE OF CREDIT

Family Support Services of West Hawaii has secured a line of credit with the Bank of Hawaii with a maximum borrowing of $150,000. The line of credit expires in September 2019 and has a zero balance as of June 30, 2018 and 2017, respectively.

Note 9. CONCENTRATIONS

During the year ended June 30, 2018 and 2017, the Organization received approximately 89% and 82%, respectively, of its revenue from government contracts, most of which are awarded by the State of Hawaii. Significant reductions, if any, could have an adverse effect on the Organization's ability to continue operations. The ultimate determination of amounts received under these programs generally is based upon allowable units of service delivered to and audited by the government. Until such audits have been completed and a final settlement has been reached, there exists a contingency to refund any amount received in excess of allowable costs.

Note 10. COMBINED FINANCIAL STATEMENT PRESENTATION

The combined financial statements include certain prior-year summarized information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization’s combined financial statements for the year ended June 30, 2017, from which the summarized information was derived.

Note 11. FUTURE LEASE PAYMENTS

The Organization leases facilities in several locations in order to fulfill its mission. In addition, the Organization entered into certain operating leases for equipment and vehicles. Rental expense was $150,384 and $142,062 for the year ended June 30, 2018 and 2017, respectively. The following schedule shows the non-cancelable portion of lease obligations to Family Support Services of West Hawaii:

2019	$ 41,909
2020	$ 9,287
2021	$ 2,156

Note 12. INCOME TAXES

Family Support Services of West Hawaii is exempt from Federal income taxes pursuant to Internal Revenue Code Section 501(c)(3), and exempt from State income taxes under Section 237-23(b) of the Hawaii Revised Statutes. Therefore no provision for Federal or State income taxes is required for the combined financial statements.

The accounting standard on accounting for uncertainty in income taxes addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the combined financial statements. Under that guidance, the Organization may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the Organization and various positions related to the potential sources of unrelated business taxable income (UBIT). The tax benefits recognized in the combined financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement.

There were no unrecognized tax benefits identified or recorded as liabilities for fiscal year 2017. The Organization files its *Forms 990* in the U.S. federal jurisdiction and the office of the state's Attorney General for the State of Hawaii. The Organization is generally no longer subject to examination by the Internal Revenue Service for years before 2015.

Note 13. DONATED SERVICES

Under *FASB ASC 958*, in-kind contributions of donated services that create or enhance non-financial assets or that require specialized skills provided by individuals possessing those skills, and which would typically need to be purchased if not provided by donation, are recognized and recorded at their fair values in the period received. During the year ended June 30, 2018, the Organization recognized $59,101 in donated rent for the facilities in Kealakehe and Greenwell.

Note 14. RECLASSIFICATION

Certain reclassifications have been made to the prior year's financial statements to conform to the current year presentation. These reclassifications have no effect on previously reported results of operations and net assets.

Note 15. RECENT ACCOUNTING PRONOUNCEMENTS

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, Presentation of Financial Statements for Not-For-Profit Entities. The standard makes improvements to the information provided in financial statements and accompanying notes of not-for-profit entities. The amendments set forth the FASB's improvements to net asset classification requirements and the information presented about a not-for-profit entity's liquidity, financial performance, and cash flows. ASU 2016-14 is effective for annual reporting periods beginning after December 31, 2017, but early adoption is permitted. The provisions are effective for the Organization's fiscal year ending June 30, 2019. Management is currently evaluating the impact that the adoption of these provisions will have on the financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases, which supersedes FASB Accounting Standards Codification (ASC) Topic 840, Leases, and makes other conforming amendments to U.S. GAAP. ASU 2016-02, requires, among other changes to the lease accounting guidance, lessees to recognize most leases on the balance sheet via a right-of-use asset and lease liability as well as additional qualitative and quantitative disclosures. ASU 2016-02 is effective for entity fiscal years beginning December 15, 2019, but permits early adoption, and mandates a modified retrospective transition method. The provisions are effective for the Organization's fiscal year ending June 30, 2021. Management is currently evaluating the impact that the adoption of these provisions will have on the financial statements.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash, which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. As a result, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The new standard is effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted. The provisions are effective for the Organization's fiscal year ending June 30, 2021. The amendments should be applied using a retrospective transition method to each period presented. Management is currently evaluating the impact that the adoption of these provisions will have on the financial statements.

Note 15. RECENT ACCOUNTING PRONOUNCEMENTS (*continued)*

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity also should disclose sufficient quantitative and qualitative information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The new standard is effective for the entity for annual periods in fiscal years beginning after December 15, 2018 (as amended in August 2015 by ASU 2015-14, Deferral of the Effective Date). The provisions are effective for the Organization's fiscal year ending June 30, 2020. Management does not expect the adoption of these provisions to have a significant impact on the financial statements.

Note 16. SUBSEQUENT EVENTS

In preparing these combined financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through December 5, 2018, the date the combined financial statements were available to be issued.

FAMILY SUPPORT SERVICES OF WEST HAWAII

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2018

Federal Grantor / Pass-through Grantor/ Program Title	Federal CFDA Number	Grant Number	Federal Expenditures
United States Department of Education:			
Passed through the State of Hawaii, Department of Health:			
Special Education - Grants for Infants and Families	84.181A	ASO LOG 13-079	$ 392,872
Special Education - Grants for Infants and Families	84.181A	ASO LOG 13-080	$ 587,407
Total United States Department of Education programs			$ 980,279
United States Department of Agriculture			
Passed through the State of Hawaii, Office of Education, Hawaii Child Nutritian Programs			
Child and Adult Care Food Program	10.558	Agreement # 2135-1	$ 8,973
Total United States Department of Agriculture Programs			$ 8,973
United States Department of Health and Human Services:			
Head Start	93.600	09CH9144	$ 1,147,704
Subtotal Department of Health and Human Services direct programs cluster			$ 1,147,704
Passed through the State of Hawaii, Department of Human Services:			
Child Care and Development Block Grant	93.596	DHS-17-CCPO-4062, SA2	$ 95,429
Social Services Block Grant	93.667	DHS-16-POS-3051, SA2	$ 203,708
Subtotal Department of Health and Human Services pass-through programs			$ 299,137
Passed through the State of Hawaii, Department of Health:			
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	93.505	ASO LOG 14-094	$ 80,000
Subtotal Department of Health pass-through programs			$ 80,000
Total United States Department of Health and Human Services programs			$ 1,526,841
Total Expenditures of Federal Awards			**$ 2,516,093**

See accompanying notes to schedule of expenditures of federal awards.

Notes to Schedule of Expenditures of Federal Awards
For the year ended June 30, 2018

Note A. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Family Support Services of West Hawaii programs of the federal government for the year ended June 30, 2018.

The information in this Schedule is presented in accordance with the requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Family Support Services of West Hawaii, it is not intended to and does not present the combined financial position, changes in net assets, or cash flows of Family Support Services of West Hawaii.

Note B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting: Expenditures reported on this schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the *Uniform Guidance*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Indirect Cost Rate: The Organization has not elected to use the 10% de minimus cost rate.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF COMBINED FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Management and Board of Directors of
Family Support Services of West Hawaii
Kailua-Kona, Hawaii 96740

We have audited, in accordance with the 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, the combined financial statements of Family Support Services of West Hawaii (a nonprofit organization), which comprise the combined statement of financial position as of June 30, 2018, and the related combined statements of activities, and cash flows for the year then ended, and the related notes to the combined financial statements, and have issued our report thereon dated December 5, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the combined financial statements, we considered Family Support Services of West Hawaii's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Family Support Services of West Hawaii's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's combined financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Family Support Services of West Hawaii's combined financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Carbonaro CPAs & Management Group

Hilo, Hawaii
December 5, 2018

Carbonaro CPAs & Management Group

Certified Public Accountants
Member: AICPA
HSCPA

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE *UNIFORM GUIDANCE*

To the Management and Board of Directors of
Family Support Services of West Hawaii
Kailua-Kona, Hawaii 96740

Report on Compliance for Each Major Federal Program

We have audited Family Support Services of West Hawaii's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Family Support Services of West Hawaii's major federal programs for the year ended June 30, 2018. Family Support Services of West Hawaii's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Family Support Services of West Hawaii's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Family Support Services of West Hawaii's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Family Support Services of West Hawaii's compliance.

Maui:
1885 Main Street, Suite 408 • **Wailuku**, Hawaii 96793
310 Ohukai Road, Suite 305 • **Kihei**, Hawaii 96753
Phone: 808.242.5002

www.carbocpa.com

Big Island:
Location: 136 Kinoole Street • **Hilo**, Hawaii 96720
Mailing: P.O. Box 4372 • Hilo, Hawaii 96720
Phone: 808.930.6850

Opinion on Each Major Federal Program

In our opinion, Family Support Services of West Hawaii complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control Over Compliance

Management of Family Support Services of West Hawaii is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Family Support Services of West Hawaii's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Family Support Services of West Hawaii's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance, and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Carbonaro CPAs & Management Group

Hilo, Hawaii
December 5, 2018

FAMILY SUPPORT SERVICES OF WEST HAWAII

Schedule of Findings and Questioned Costs
For the year ended June 30, 2018

A. SUMMARY OF AUDIT RESULTS

Combined financial statements

Type of Auditor's report issued:	**Unmodified**
Internal control over financial reporting:	
• Significant Deficiencies	**No**
• Material Weaknesses	**No**
Noncompliance which is material to the combined financial statements noted:	**No**

Federal Awards

Internal control over Major Programs:	
• Significant Deficiencies	**No**
• Material Weaknesses	**No**
Type of auditor's report issued in regards to major program compliance:	**Unmodified**

The programs tested as the major programs were:

	Federal CFDA Number	Grant Number
United States Department of Education:		
Head Start	93.600	09CH9144

The threshold for distinguishing between Type A and Type B programs was	**$750,000**
Auditee qualified as a low-risk auditee	**Yes**

B. FINANCIAL STATEMENT FINDINGS

None noted.

C. FINDINGS AND QUESTIONS COSTS - MAJOR FEDERAL AWARD PROGRAM

None noted.

D. SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

None