

**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, 2019  
(With Comparative Totals for the Year Ended June 30, 2018)

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## 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, 2019, 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.

### ***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, 2019, 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's combined financial statements, and our report dated December 5, 2018, 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, 2018, 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 17, 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 November 28, 2019, 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  
November 28, 2019

FAMILY SUPPORT SERVICES OF WEST HAWAII

Combined Statements of Financial Position  
As of June 30, 2019 and 2018

**ASSETS**

	2019	2018
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents (Note 2)	\$ 512,161	\$ 160,498
Accounts Receivable - Grants and Contracts (Note 2)	580,837	788,446
Prepaid Expenses	20,843	40,518
Total Current Assets	1,113,841	989,462
 <b>PROPERTY AND EQUIPMENT (Note 2)</b>		
Vehicles	329,137	273,082
Equipment - Restricted	133,954	133,954
Leasehold Improvements	108,883	108,883
	571,974	515,919
Accumulated Depreciation	(420,852)	(400,393)
Net Property and Equipment	151,122	115,526
 <b>OTHER ASSETS</b>		
Investments (Note 4)		
Vanguard Balanced Index Fund-Building	33,407	30,674
Vanguard Balanced Index Fund	64,962	59,647
Vanguard Equities	844	854
Total Investments	99,213	91,175
Security Deposits	14,820	15,049
Total Other Assets	114,033	106,224
 <b>TOTAL ASSETS</b>	 <b>\$ 1,378,996</b>	 <b>\$ 1,211,212</b>

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, 2019 and 2018

**LIABILITIES AND NET ASSETS**

	2019	2018
<b>CURRENT LIABILITIES</b>		
Accounts Payable	\$ 26,356	\$ 59,283
Accrued Payroll Expenses	97,018	107,346
Current Portion of Note Payable (Note 18)	13,050	-
Total Current Liabilities	136,424	166,629
 <b>NON-CURRENT LIABILITIES</b>		
Note Payable (Note 18)	41,715	-
Total Non-Current Liabilities	41,715	-
 <b>NET ASSETS (Note 3)</b>		
Net Assets without Donor Restrictions	1,030,090	904,492
Board Designated Net Assets without Donor Restrictions	28,800	28,800
Total Net Assets without Donor Restrictions	1,058,890	933,292
 Net Assets with Donor Restrictions	141,967	111,291
Total Net Assets	1,200,857	1,044,583
 <b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 1,378,996</b>	<b>\$ 1,211,212</b>

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, 2019

(With Comparative Totals for the Year Ended June 30, 2018)

	2019			2018 Total
	Without Donor Restriction	With Donor Restriction	Total	
<b>PUBLIC SUPPORT</b>				
Government Contracts - State and County	\$ 1,329,311	\$ -	\$ 1,329,311	\$ 147,013
Federal Contracts and Pass-through Funds	1,440,236	-	1,440,236	2,516,093
	<u>2,769,547</u>	<u>-</u>	<u>2,769,547</u>	<u>2,663,106</u>
<b>CONTRIBUTIONS AND REVENUE</b>				
Grants from Foundations and Others	157,435	173,000	330,435	239,729
Contributions	91,207	-	91,207	72,168
In-Kind Revenue (Note 13)	59,461	-	59,461	59,101
Interest Income	65	-	65	653
Unrealized Gains	8,048	-	8,048	7,198
	<u>316,216</u>	<u>173,000</u>	<u>489,216</u>	<u>378,849</u>
Total Public Support, Contributions and Revenue	3,085,763	173,000	3,258,763	3,041,955
Net Assets Released from Restrictions	142,324	(142,324)	-	-
<b>EXPENSES</b>				
Programs:				
Early Childhood	2,229,887	-	2,229,887	2,057,446
Healthy Start	263,615	-	263,615	324,566
Youth Development	13,224	-	13,224	8,328
Other Programs	189,639	-	189,639	163,507
Total Programs	<u>2,696,365</u>	<u>-</u>	<u>2,696,365</u>	<u>2,553,847</u>
Fundraising	15,610	-	15,610	13,484
Management and General	390,514	-	390,514	378,556
Total Expenses	<u>3,102,489</u>	<u>-</u>	<u>3,102,489</u>	<u>2,945,887</u>
Change in Net Assets	<u>\$ 125,598</u>	<u>\$ 30,676</u>	<u>\$ 156,274</u>	<u>\$ 96,068</u>

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, 2019  
 (With Comparative Totals for the Year Ended June 30, 2018)

	2019			Total	2018 Total
	Program Services	Management and General	Fundraising		
Wages	\$1,256,411	\$ 237,325	\$ 4,670	\$1,498,406	\$1,535,702
Payroll Taxes and Benefits (Note 6)	403,779	66,043	1,242	471,064	470,665
Outside Services	405,517	693	-	406,210	208,779
Occupancy	149,736	14,381	-	164,117	172,032
Supplies	120,830	6,437	464	127,731	133,351
Training, Travel and Conference	97,417	6,282	-	103,699	90,503
Equipment and Vehicle Expense	61,443	-	-	61,443	62,265
In-kind Expense (Note 13)	59,461	-	-	59,461	59,101
Insurance	36,256	130	-	36,386	34,823
Telephone	28,023	2,913	-	30,936	31,447
Professional Fees	2,070	20,373	-	22,443	25,023
Utilities	17,015	3,960	-	20,975	22,885
Depreciation	20,459	-	-	20,459	11,758
Project Expenses	18,181	-	-	18,181	26,288
Mileage Reimbursement	13,752	2,988	-	16,740	17,034
Dues and Membership	-	15,425	-	15,425	6,615
Direct Fundraising Expense	3,242	-	9,046	12,288	7,150
Postage, Printing and Advertising	1,275	4,949	188	6,412	13,258
Bad Debt Expense	-	4,720	-	4,720	1,030
Fees	-	3,497	-	3,497	2,957
Client Assistance	951	-	-	951	10,123
Other Expenses	547	398	-	945	3,098
<b>Total Expenses</b>	<b>\$2,696,365</b>	<b>\$ 390,514</b>	<b>\$ 15,610</b>	<b>\$3,102,489</b>	<b>\$2,945,887</b>

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, 2019 and 2018

	<u>Net Assets Without Donor Restrictions</u>	<u>Net Assets With Donor Restrictions</u>	<u>Total Net Assets</u>
Net Assets, June 30, 2017	\$ 839,549	\$ 108,966	\$ 948,515
Change in Net Assets	<u>93,743</u>	<u>2,325</u>	<u>96,068</u>
Net Assets, June 30, 2018	\$ 933,292	\$ 111,291	\$ 1,044,583
Change in Net Assets	<u>125,598</u>	<u>30,676</u>	<u>156,274</u>
Net Assets, June 30, 2019	<u>\$ 1,058,890</u>	<u>\$ 141,967</u>	<u>\$ 1,200,857</u>

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, 2019 and 2018

	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash Received from Government Agencies	\$ 2,972,436	\$ 2,419,818
Cash Received from Nongovernmental Contracts, Grantors, Donors and Other Receipts	421,642	311,897
Interest Income	65	653
Cash Paid to Employees and Vendors	(3,041,190)	(2,858,969)
Net Cash Provided (Used) by Operating Activities (Note 7)	352,953	(126,601)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of Fixed Assets	(56,055)	(63,688)
Net Cash Used by Investing Activities	(56,055)	(63,688)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Borrowings from Note Payable	56,055	-
Payments on Notes Payable	(1,290)	-
Net Cash Provided by Financing Activities	54,765	-
<b>Net Increase (Decrease) in Cash for the Year</b>	<b>351,663</b>	<b>(190,289)</b>
CASH BALANCE, BEGINNING OF YEAR	160,498	350,787
CASH BALANCE, END OF YEAR	\$ 512,161	\$ 160,498

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

## FAMILY SUPPORT SERVICES OF WEST HAWAII

Notes to the Combined Financial Statements  
June 30, 2019

### 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 follows standards of accounting and financial reporting for voluntary health and welfare organizations as described in the American Institute of Certified Public Accountants' "Industry Guide for Audits of Voluntary Health and Welfare Organizations." Accordingly, the financial statements are prepared on the accrual basis of accounting. Under this method of accounting, 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, 2019 and 2018.

*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, 2019 and 2018.

FAMILY SUPPORT SERVICES OF WEST HAWAII

Notes to the Combined Financial Statements  
June 30, 2019

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 AND NEW ACCOUNTING PRONOUNCEMENTS

On August 18, 2016, the FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. Family Support Services of West Hawaii has adjusted the presentation of its financial statements accordingly, applying the changes retrospectively to the comparative period presented. The new standards change the following aspects of the Organization’s financial statements:

The temporarily and permanently restricted net asset classes have been renamed net assets with donor restrictions. The unrestricted net asset class has been renamed net assets without donor restrictions.

The changes have the following effect on net assets at June 30, 2018:

Net Asset Class	Presented	of ASU 2016-14
Unrestricted Net Assets	\$ 904,492	\$ -
Unrestricted Board Designated	28,800	-
Temporarily Restricted Net Assets	88,291	-
Permanently Restricted Net Assets	23,000	-
Net Assets Without Donor Restriction	-	904,492
Board Designated Net Assets Without Donor Restriction	-	28,800
Net Assets With Donor Restriction	-	111,291
Total Net Assets	\$ 1,044,583	\$ 1,044,583

Net assets, revenue, and support are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Net assets without donor restrictions include all resources that are not subject to donor-imposed stipulations or contributions with donor-imposed restrictions that are met during the same year as the contribution is made. Net assets without donor restrictions denoted as property and equipment represent equity in such property and equipment. They are available for support of all organizational operations and services. Net assets without donor restrictions may be designated by the board of directors for specific purpose at any time.

FAMILY SUPPORT SERVICES OF WEST HAWAII

Notes to the Combined Financial Statements  
June 30, 2019

Note 3. NET ASSETS AND NEW ACCOUNTING PRONOUNCEMENTS (Continued)

Net assets with donor restriction include amounts that the donor subjects to restrictions in perpetuity and amounts subject to legal or donor-imposed stipulations that may or will be met either by actions of the Organization and/or passage of time. Contributions with restriction are reported as increases in net assets with donor restriction. When the restriction is met the amount is reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions. If a donation with restrictions is received and the purpose is met during the year it is reported as net assets without restrictions.

Net assets with donor restriction as of June 30, 2019 and 2018 were as follows:

	2019	2018
Newborn Enhanced Support Team	\$ 82,847	\$ 43,643
FISH Speech	15,000	-
ECE - First Foods	11,791	29,803
Agency Project	6,932	11,633
Promising Minds	2,397	-
Castle Grant	-	3,212
Total	\$ 118,967	\$ 88,291

Net assets with donor restriction through perpetuity are also included in the net asset with donor restriction. These net assets 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. Net assets with donor restriction through perpetuity were \$23,000 as of June 30, 2019 and 2018.

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 2019 did not have a significant effect on the Organization's combined financial statements.

The financial statements include a new disclosure about liquidity and availability of resources (Note 17).

## FAMILY SUPPORT SERVICES OF WEST HAWAII

Notes to the Combined Financial Statements  
June 30, 2019

### 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.

	Total	Quoted Prices: Level 1	Significant Other Inputs: Level 2	Significant Non- Observable Inputs: Level 3		Total	Quoted Prices: Level 1	Significant Other Inputs: Level 2	Significant Non- Observable Inputs: Level 3
Assets	2019				Assets	2018			
Stocks	\$59,866	\$59,866	\$ -	\$ -	Stocks	\$55,047	\$55,047	\$ -	\$ -
Bonds	39,347	39,347			Bonds	36,128	36,128		
Total	<u>\$99,213</u>	<u>\$99,213</u>	<u>\$ -</u>	<u>\$ -</u>	Total	<u>\$91,175</u>	<u>\$91,175</u>	<u>\$ -</u>	<u>\$ -</u>

### 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, 2019 and 2018, the 401(k) retirement plan contributions by the Organization were \$49,152 and \$53,441 respectively.

FAMILY SUPPORT SERVICES OF WEST HAWAII

Notes to the Combined Financial Statements  
June 30, 2019

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

	2019	2018
Change in Net Assets	\$ 156,274	\$ 96,068
Add in Depreciation	20,459	11,758
Unrealized Gain on Investments	(8,048)	(7,198)
Bad Debt Expense	4,720	1,030
Change in Accounts Receivable - Grants and Contracts	202,889	(245,215)
Change in Prepaid Expenses	19,675	(1,010)
Change in Investment Equity	10	(320)
Change in Security Deposits	229	-
Change in Accounts Payable	(32,927)	24,770
Change in Accrued Payroll Expenses	(10,328)	(6,484)
Net Cash Provided (Used) by Operating Activities	\$ 352,953	\$ (126,601)

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 2020 and has a zero balance as of June 30, 2019 and 2018, respectively.

Note 9. CONCENTRATIONS

During the year ended June 30, 2019 and 2018, the Organization received approximately 85% and 89%, 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, 2018, from which the summarized information was derived.

## FAMILY SUPPORT SERVICES OF WEST HAWAII

Notes to the Combined Financial Statements  
June 30, 2019

### 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 \$148,720 for the year ended June 30, 2019. The following schedule shows the non-cancelable portion of lease obligations to Family Support Services of West Hawaii:

2020	\$	49,694
2021	\$	35,673
2022	\$	21,085
2023	\$	8,448

### 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 2018. 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 2016.

### 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, 2019, the Organization recognized \$59,461 in donated rent for the facilities in Kealakehe and Greenwell.

## FAMILY SUPPORT SERVICES OF WEST HAWAII

### Notes to the Combined Financial Statements June 30, 2019

#### 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 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 after 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.

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.

FAMILY SUPPORT SERVICES OF WEST HAWAII

Notes to the Combined Financial Statements  
June 30, 2019

Note 16. SUBSEQUENT EVENTS

In preparing these combined financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through November 28, 2019, the date the combined financial statements were available to be issued.

Note 17. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

Management's policy is to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due.

Financial Assets at June 30, 2019	\$ 512,161
Less those unavailable for general expenditures	
Restricted by donor with purpose restriction	<u>(141,967)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 370,194</u>

In addition to the financial assets available above, the Organization has the ability to borrow on the of credit noted in Note 8.

Note 18. NOTE PAYABLE

In May 2019, the Organization entered into an agreement with the Bank of Hawaii to purchase four vehicles they had previously leased at fair market value. The loan calls for month principal and interest payments of \$1,291 and bears interest at 5%. The loan is secured by the vehicles and matures in May 2023. Future minimum principal payments on the loan are as follows as of June 30:

	\$
2020	13,050
	\$
2021	13,718
	\$
2022	14,420
	\$
2023	<u>13,577</u>
	\$
Total	<u>54,765</u>

FAMILY SUPPORT SERVICES OF WEST HAWAII

Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2019

Federal Grantor / Pass-through Grantor/ Program Title	Federal CFDA Number	Grant Number	Federal Expenditures
<b>United States Department of Agriculture</b>			
Passed through the State of Hawaii, Office of Education, Hawaii Child Nutrition Programs			
Child and Adult Care Food Program	10.558	Agreement # 2135-1	\$ 9,906
Total United States Department of Agriculture passed-through-programs			9,906
<b>United States Department of Health and Human Services:</b>			
Head Start	93.600	09CH9144	1,159,081
Subtotal Department of Health and Human Services direct programs			1,159,081
Passed through the State of Hawaii, Department of Human Services:			
Child Care and Development Block Grant	93.575	DHS-17-CCPO-4062, SA2	85,397
Temporary Assistance for Needy Families	93.558	DHS-16-POS-3051, SA2	185,852
Subtotal Department of Health and Human Services passed-through programs			271,249
Total Department of Health and Human Services programs			1,430,330
<b>Total expenditures of federal awards</b>			<b>\$ 1,440,236</b>

## FAMILY SUPPORT SERVICES OF WEST HAWAII

Notes to Schedule of Expenditures of Federal Awards  
For the year ended June 30, 2019

### 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, 2019.

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, 2019, 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 November 28, 2019.

**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  
November 28, 2019

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, 2019. 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.

### ***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, 2019.

### ***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  
November 28, 2019

FAMILY SUPPORT SERVICES OF WEST HAWAII

Schedule of Findings and Questioned Costs  
For the year ended June 30, 2019

**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:

	<b>Federal CFDA Number</b>	<b>Grant Number</b>
<b>United States Department of Education:</b>		
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