

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, 2017
(With comparative totals for the year ended June 30, 2016)

TABLE OF CONTENTS

	Page
Independent Auditor's Report	1
Combined Financial Statements:	
Combined Statements of Financial Position	3
Combined Statement of Activities	5
Combined Statement of Functional Expenses	6
Combined Statements of Changes in Net Assets	7
Combined Statements of Cash Flows	8
Notes to the Combined Financial Statements	9
Schedule of Expenditures of Federal Awards	14
Notes to the Schedule of Expenditures of Federal Awards	15
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 <i>Government Auditing Standards</i>	16
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance	18
Schedule of Findings and Questioned Costs	20

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, 2017, 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, 2017, 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 15, 2016, 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, 2016, 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 14 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, 2017, 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.



Hilo, Hawaii
December 5, 2017

FAMILY SUPPORT SERVICES OF WEST HAWAII

Combined Statements of Financial Position
As of June 30, 2017 and 2016

ASSETS

	<u>2017</u>	<u>2016</u>
CURRENT ASSETS		
Cash and Cash Equivalents (Note 2)	\$ 350,787	\$ 295,795
Accounts Receivable - Grants and Contracts (Note 2)	544,261	336,802
Prepaid Expenses	<u>39,508</u>	<u>20,344</u>
Total Current Assets	934,556	652,941
PROPERTY AND EQUIPMENT (Note 2)		
Vehicles	259,988	331,405
Equipment - Restricted	133,954	133,954
Leasehold Improvements	<u>108,883</u>	<u>108,883</u>
	502,825	574,242
Accumulated Depreciation	<u>(439,229)</u>	<u>(491,425)</u>
Net Property and Equipment	63,596	82,817
OTHER ASSETS		
Investments (Note 4)		
Vanguard Balanced Index Fund-Building	29,493	26,788
Vanguard Balanced Index Fund	53,630	48,434
Vanguard Equities	<u>534</u>	<u>534</u>
Total Investments	83,657	75,756
Security Deposits	<u>15,049</u>	<u>12,696</u>
Total Other Assets	<u>98,706</u>	<u>88,452</u>
TOTAL ASSETS	<u>\$ 1,096,858</u>	<u>\$ 824,210</u>

FAMILY SUPPORT SERVICES OF WEST HAWAII

Combined Statements of Financial Position
As of June 30, 2017 and 2016

LIABILITIES AND NET ASSETS

	<u>2017</u>	<u>2016</u>
CURRENT LIABILITIES		
Accounts Payable	\$ 34,513	\$ 26,297
Accrued Payroll Expenses	<u>113,830</u>	<u>112,218</u>
Total Current Liabilities	148,343	138,515
NET ASSETS (Note 3)		
Unrestricted	810,749	569,837
Board Designated	<u>28,800</u>	<u>28,000</u>
Total Unrestricted	839,549	597,837
Temporarily Restricted	85,966	64,858
Permanently Restricted	<u>23,000</u>	<u>23,000</u>
Total Net Assets	<u>948,515</u>	<u>685,695</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 1,096,858</u></u>	<u><u>\$ 824,210</u></u>

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, 2017

(With Comparative Totals for the Year Ended June 30, 2016)

	2017				2016
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
PUBLIC SUPPORT					
Government Contracts - State and County	\$ 156,920	\$ -	\$ -	\$ 156,920	\$ 161,386
Federal Contracts and Pass-through Funds	2,404,362	-	-	2,404,362	2,305,594
	<u>2,561,282</u>	<u>-</u>	<u>-</u>	<u>2,561,282</u>	<u>2,466,980</u>
CONTRIBUTIONS AND REVENUE					
Grants from Foundations and Others	21,039	196,631	-	217,670	111,269
Contributions	325,970	2,558	-	328,528	88,747
Interest Income	135	-	-	135	212
Gain on Asset Disposal	5,500	-	-	5,500	-
Unrealized Gains	7,901	-	-	7,901	3,243
	<u>360,545</u>	<u>199,189</u>	<u>-</u>	<u>559,734</u>	<u>203,471</u>
Total Public Support, Contributions and Revenue	2,921,827	199,189	-	3,121,016	2,670,451
Net Assets Released from Restrictions	178,081	(178,081)	-	-	-
EXPENSES					
Programs:					
Early Childhood	1,947,711	-	-	1,947,711	1,815,274
Healthy Start	365,439	-	-	365,439	356,067
Youth Development	44,101	-	-	44,101	80,527
Other Programs	84,728	-	-	84,728	39,509
Total Programs	<u>2,441,979</u>	<u>-</u>	<u>-</u>	<u>2,441,979</u>	<u>2,291,377</u>
Fundraising	10,194	-	-	10,194	11,074
Management and General	406,023	-	-	406,023	382,033
Total Expenses	<u>2,858,196</u>	<u>-</u>	<u>-</u>	<u>2,858,196</u>	<u>2,684,484</u>
Change in Net Assets	<u>\$ 241,712</u>	<u>\$ 21,108</u>	<u>\$ -</u>	<u>\$ 262,820</u>	<u>\$ (14,033)</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, 2017
 (With Comparative Totals for the Year Ended June 30, 2016)

	2017			2016 Total	
	Program Services	Management and General	Fundraising		Total
Wages	\$1,341,072	\$ 258,571	\$ 2,450	\$1,602,093	\$1,544,186
Payroll Taxes and Benefits	395,324	72,168	1,040	468,532	434,991
Supplies	119,874	22,256	1,266	143,396	142,375
Occupancy	124,735	15,737	-	140,472	139,363
Outside Services	103,543	-	-	103,543	74,928
Training, Travel and Conference	91,788	1,630	-	93,418	66,222
Professional Fees	36,299	23,743	-	60,042	24,346
Equipment and Vehicle Expense	58,860	779	-	59,639	56,378
Insurance	35,719	1,293	-	37,012	37,996
Telephone	30,266	1,226	-	31,492	32,217
Mileage Reimbursement	23,225	264	201	23,690	27,972
Utilities	17,543	3,258	-	20,801	23,504
Project Expenses	20,325	-	-	20,325	10,585
Depreciation	19,221	-	-	19,221	19,221
Client Assistance	13,489	-	-	13,489	22,933
Postage, Printing and Advertising	3,194	677	2,896	6,767	11,998
Dues and Membership	6,110	561	-	6,671	4,434
Other Expenses	1,117	-	254	1,371	3,413
Fees	173	3,860	-	4,033	4,086
Direct Fundraising Expense	-	-	2,087	2,087	881
Bad Debt Expense	102	-	-	102	2,455
Total Expenses	\$2,441,979	\$ 406,023	\$ 10,194	\$ 2,858,196	\$ 2,684,484

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, 2017 and 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Assets</u>
Net Assets, June 30, 2015	<u>\$ 595,714</u>	<u>\$ 81,014</u>	<u>\$ 23,000</u>	<u>\$ 699,728</u>
Change in Net Assets	<u>2,123</u>	<u>(16,156)</u>	<u>-</u>	<u>(14,033)</u>
Net Assets, June 30, 2016	<u>\$ 597,837</u>	<u>\$ 64,858</u>	<u>\$ 23,000</u>	<u>\$ 685,695</u>
Change in Net Assets	<u>241,712</u>	<u>21,108</u>	<u>-</u>	<u>262,820</u>
Net Assets, June 30, 2017	<u>\$ 839,549</u>	<u>\$ 85,966</u>	<u>\$ 23,000</u>	<u>\$ 948,515</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, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Government Agencies	\$ 2,353,721	\$ 2,547,572
Cash Received from Nongovernmental Contracts, Grantors, Donors and Other Receipts	546,198	200,016
Interest Income	135	212
Cash Paid to Employees and Vendors	<u>(2,850,562)</u>	<u>(2,697,062)</u>
Net Cash Provided by Operating Activities (Note 7)	49,492	50,738
CASH FLOWS USED BY INVESTING ACTIVITIES		
Proceeds from Sale of Fixed Assets	5,500	-
Purchase of Investments	<u>-</u>	<u>(534)</u>
Net Cash Provided (Used) by Investing Activities	5,500	(534)
CASH FLOWS PROVIDED BY FINANCING ACTIVITIES	<u>-</u>	<u>-</u>
Net Increase in Cash for the Year	54,992	50,204
CASH BALANCE, BEGINNING OF YEAR	<u>295,795</u>	<u>245,591</u>
CASH BALANCE, END OF YEAR	<u><u>\$ 350,787</u></u>	<u><u>\$ 295,795</u></u>

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, 2017

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 (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 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 represents 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, 2017 and 2016.

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, 2017 and 2016.

FAMILY SUPPORT SERVICES OF WEST HAWAII

Notes to the Combined Financial Statements

June 30, 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.

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:

	<u>2017</u>	<u>2016</u>
Newborn Enhanced Support Team	\$ 40,882	\$ 32,175
ECE - First Foods	23,693	13,040
Fatherhood Initiative	15,696	13,223
Castle	3,212	-
ECE Marshallese	1,864	4,961
ECE - Learn and Play Group	619	619
ECE - R.I.F.	-	840
	<u> </u>	<u> </u>
Total	<u>\$ 85,966</u>	<u>\$ 64,858</u>

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 is 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 2017 did not have a significant effect on the Organization’s combined financial statements.

FAMILY SUPPORT SERVICES OF WEST HAWAII

Notes to the Combined Financial Statements
June 30, 2017

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	Significant	Significant Non-		Total	Quoted	Significant	Significant Non-
Assets	6/30/2017	Prices:	Other Inputs:	Observable	Assets	6/30/2016	Prices:	Other Inputs:	Observable
		Level 1	Level 2	Inputs: Level 3			Level 1	Level 2	Inputs: Level 3
Stocks	\$ 50,383	\$ 50,383	\$ -	\$ -	Stocks	\$ 45,667	\$ 45,667	\$ -	\$ -
Bonds	33,274	33,274			Bonds	30,089	30,089		
Total	<u>\$ 83,657</u>	<u>\$ 83,657</u>	<u>\$ -</u>	<u>\$ -</u>	Total	<u>\$ 75,756</u>	<u>\$ 75,756</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 switched its retirement plan from Mutual of America to Fish Investments in which there is no limit on employee contributions and the Organization matches up to 3%. For the year ended June 30, 2017 and 2016, the 401(k) retirement plan contributions by the Organization were \$29,447 and \$24,526, respectively.

FAMILY SUPPORT SERVICES OF WEST HAWAII

Notes to the Combined Financial Statements
June 30, 2017

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

	<u>2017</u>	<u>2016</u>
Change in Net Assets	\$ 262,820	\$ (14,033)
Add in Depreciation	19,221	19,221
Unrealized Gain on Investments	(7,901)	(3,243)
Gain on Asset Disposal	(5,500)	-
Bad Debt Expense	102	2,455
Change in Accounts Receivable - Grants and Contracts	(207,561)	90,135
Change in Prepaid Expenses	(19,164)	289
Change in Security Deposits	(2,353)	746
Change in Accounts Payable	8,216	(28,431)
Change in Accrued Payroll Expenses	1,612	(16,401)
Net Cash Provided by Operating Activities	<u>\$ 49,492</u>	<u>\$ 50,738</u>

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 \$200,000. The line of credit expires in September 2017 and has a zero balance as of June 30, 2017 and 2016, respectively.

Note 9. CONCENTRATIONS

During the year ended June 30, 2017 and 2016, the Organization received approximately 82% and 92%, 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, 2016, from which the summarized information was derived.

FAMILY SUPPORT SERVICES OF WEST HAWAII

Notes to the Combined Financial Statements

June 30, 2017

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 \$142,062 and \$120,734 for the year ended June 30, 2017 and 2016, respectively. The following schedule shows the non-cancelable portion of lease obligations to Family Support Services of West Hawaii:

2018	\$	41,215
2019	\$	39,048
2020	\$	6,426

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 2014.

Note 13. SUBSEQUENT EVENTS

In preparing these combined financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through December 5, 2017, the date the combined financial statements were available to be issued.

Note 14. RECLASSIFICATION

Certain items on the June 30, 2016 statement of cash flows have been reclassified to conform to classifications of the June 30, 2017 statement of cash flows. These reclassifications had no impact on the change in net assets.

FAMILY SUPPORT SERVICES OF WEST HAWAII

**Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017**

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:			
Infant and Toddler Development Services	84.181A	ASO LOG 13-079	\$ 360,016
Infant and Toddler Development Services	84.181A	ASO LOG 13-080	<u>576,267</u>
Total U.S. Department of Education pass-through programs			936,283
United States Department of Agriculture:			
Passed through the State of Hawaii, Office of Education, Hawaii Child Nutrition Programs			
Child and Adult Care Food Program	10.558	Agreement # 2135-1	8,661
Total U.S. Department of Agriculture programs			<u>8,661</u>
United States Department of Health and Human Services:			
Early Head Start	93.600	09CH9144-03-05	1,094,096
Subtotal Department of Health and Human Services direct programs			<u>1,094,096</u>
Passed through the State of Hawaii, Department of Human Services:			
Child Care and Development Block Grant	93.575	DHS-08-BESSD-5045	95,220
Temporary Assistance for Needy Families	93.558	DHS-16-POS-3051	182,576
Subtotal Department of Human Services passed through programs			<u>277,796</u>
Passed through the State of Hawaii, Department of Health:			
Affordable Care Act -			
Maternal, Infant and Early Childhood Home Visiting Program	93.505	ASO LOG 14-094	80,000
Passed through National Association of County and City Health Officials:			
Reducing Disparities in Breastfeeding through Peer and Professional Support (Breastfeeding) Project	93.524	2014-112052	163
Passed through the Hawaii Youth Services Network:			
Transitional Living For Homeless Youth	93.550	09CX6978	7,139
Basic Center Grant	93.623	90CY6418-01-00	224
Subtotal Department of Health and Human Services pass-through programs			<u>365,322</u>
Total U.S. Department of Health and Human Services programs			<u>1,459,418</u>
Total expenditures of federal awards			<u>\$ 2,404,362</u>

FAMILY SUPPORT SERVICES OF WEST HAWAII

Notes to Schedule of Expenditures of Federal Awards
For the year ended June 30, 2017

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, 2017.

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, 2017, 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, 2017.

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.



Hilo, Hawaii
December 5, 2017

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY *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, 2016. 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, 2017.

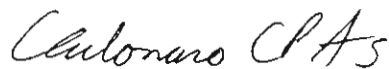
Report on Internal Control Over Compliance

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.



Hilo, Hawaii
December 5, 2017

FAMILY SUPPORT SERVICES OF WEST HAWAII

Schedule of Findings and Questioned Costs
For the year ended June 30, 2017

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 Grant Number	Grant Number
United States Department of Education:		
Infant and Toddler Development Services	84.181A	ASO Log 13-079
Infant and Toddler Development Services	84.181A	ASO Log 13-080

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