FAMILY SUPPORT SERVICES OF WEST HAWAII AND SUBSIDIARY
(A Hawaiʻi Nonprofit Corporation)

AUDITED CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
WITH INDEPENDENT AUDITORS' REPORT

FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

FAMILY SUPPORT SERVICES OF WEST HAWAII AND SUBSIDIARY

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INDEPENDENT AUDITORS' REPORT

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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Family Support Services of West Hawaii (a nonprofit organization) and Subsidiary, which comprise the consolidated statements of financial position as of June 30, 2023 and 2022, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the respective financial position of Family Support Services of West Hawaii and Subsidiary as of June 30, 2023 and 2022, and the respective changes in its net assets and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Family Support Services of West Hawaii and Subsidiary and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Change in Accounting Principle

As discussed in Note 2 to the consolidated financial statements, during the year ended June 30, 2023, the Organization adopted Financial Accounting Standards Board's Accounting Standards Codification 2016-02 Topic 842, *Leases*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; and for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Family Support Services of West Hawaii and Subsidiary's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.

- Obtain an understanding of internal control relevant to the audit 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 Family Support Services of West Hawaii and Subsidiary's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Family Support Services of West Hawaii and Subsidiary's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* 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 basic consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic consolidated 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 7, 2023, on our consideration of the Family Support Services of West Hawaii and Subsidiary's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Family Support Services of West Hawaii and Subsidiary's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Family Support Services of West Hawaii and Subsidiary's internal control over financial reporting and compliance.

Carbonaro CPAs & Mgmt Group

Kailua-Kona, Hawaiʻi
December 7, 2023

FAMILY SUPPORT SERVICES OF WEST HAWAII AND SUBSIDIARY

Consolidated Statements of Financial Position
June 30, 2023 and 2022

ASSETS

	2023	2022
CURRENT ASSETS		
Cash and Cash Equivalents (Notes 2 and 10)	$ 614,846	$ 521,809
Accounts Receivable - Grants and Contracts (Note 2)	953,667	793,722
Prepaid Expenses	15,149	11,640
Total Current Assets	1,583,662	1,327,171
PROPERTY AND EQUIPMENT (Note 2)		
Vehicles	334,976	290,135
Equipment - Restricted	142,751	142,751
Leasehold Improvements	108,883	108,883
Less: Accumulated Depreciation and Amortization	(435,495)	(420,187)
Total Property and Equipment, Net	151,115	121,582
OTHER NON-CURRENT ASSETS		
Operating Lease Right-Of-Use Assets, Net (Notes 2 and 8)	225,382	-
Investments (Note 3)		
Vanguard Balanced Index Fund - Building	43,694	39,474
Vanguard Balanced Index Fund	84,964	76,759
Vanguard Equities	664	712
Total Investments	129,322	116,945
Security Deposits	11,854	11,854
Total Other Non-Current Assets	366,558	128,799
TOTAL ASSETS	$ 2,101,335	$ 1,577,552

LIABILITIES AND NET ASSETS

	2023	2022
CURRENT LIABILITIES		
Accounts Payable	$ 33,434	$ 24,453
Accrued Payroll and Related Expenses	158,288	120,981
Current Portion of Operating Lease Liabilities (Notes 2 and 8)	85,534	-
Total Current Liabilities	277,256	145,434
NON-CURRENT PORTION OF OPERATING LEASE LIABILITIES (Notes 2 and 8)	139,848	-
TOTAL LIABILITIES	417,104	145,434
NET ASSETS (Note 2)		
Net Assets Without Donor Restrictions	1,583,453	1,338,586
Board of Directors Designated Net Assets Without Donor Restrictions	28,800	28,800
Net Assets With Donor Restrictions	71,978	64,732
Total Net Assets	1,684,231	1,432,118
TOTAL LIABILITIES AND NET ASSETS	$ 2,101,335	$ 1,577,552

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

FAMILY SUPPORT SERVICES OF WEST HAWAII AND SUBSIDIARY

Consolidated Statements of Activities and Changes in Net Assets
For the Years Ended June 30, 2023 and 2022

	Without Donor Restrictions	With Donor Restrictions	Total 2023	Without Donor Restrictions	With Donor Restrictions	Total 2022
REVENUE						
Government Contracts - State and County	$ 1,397,371	$ -	$ 1,397,371	$ 919,734	$ -	$ 919,734
Federal Contracts and Pass-through Funds	1,675,680	-	1,675,680	1,663,766	-	1,663,766
Grants from Foundations	95,816	23,684	119,500	104,500	47,293	151,793
In-Kind Revenue (Note 2)	94,800	-	94,800	59,461	-	59,461
Program Service Fees	59,114	-	59,114	53,839	-	53,839
Contributions and Other Income	51,288	-	51,288	48,230	5,138	53,368
Gain on Sale of Fixed Assets	9,500	-	9,500	14,500	-	14,500
Interest Income	164	-	164	338	-	338
Unrealized Gains (Losses) from Investments	12,377	-	12,377	(16,959)	-	(16,959)
Net Assets Released from Restriction	16,438	(16,438)	-	34,797	(34,797)	-
TOTAL REVENUE	3,412,548	7,246	3,419,794	2,882,206	17,634	2,899,840
EXPENSES						
Program Services	2,728,030	-	2,728,030	2,367,761	-	2,367,761
Management and General	424,398	-	424,398	403,840	-	403,840
Fundraising	15,253	-	15,253	11,457	-	11,457
TOTAL EXPENSES	3,167,681	-	3,167,681	2,783,058	-	2,783,058
CHANGES IN NET ASSETS	**$ 244,867**	**$ 7,246**	**$ 252,113**	**$ 99,148**	**$ 17,634**	**$ 116,782**
Net Assets, Beginning of Year	1,367,386	64,732	1,432,118	1,268,238	47,098	1,315,336
Net Assets, End of Year	$ 1,612,253	$ 71,978	$ 1,684,231	$ 1,367,386	$ 64,732	$ 1,432,118

FAMILY SUPPORT SERVICES OF WEST HAWAII AND SUBSIDIARY

Consolidated Statements of Functional Expenses
For the Years Ended June 30, 2023 and 2022

		Supporting Services				Supporting Services		
	Program Services	Management and General	Fundraising	Total 2023	Program Services	Management and General	Fundraising	Total 2022
Salaries and Wages	$ 1,280,280	$ 249,498	$ 4,436	$ 1,534,214	$ 1,163,283	$ 249,498	$ 4,096	$ 1,416,877
Employee Benefits (Note 5)	213,293	45,770	996	260,059	219,162	46,754	1,022	266,938
Payroll Taxes	126,404	27,125	590	154,119	112,562	24,017	525	137,104
Total Salaries, Wages and Related Expenses	1,619,977	322,393	6,022	1,948,392	1,495,007	320,269	5,643	1,820,919
Outside Services	359,072	1,569	144	360,785	266,684	1,165	107	267,956
Occupancy (Note 8)	168,848	19,755	-	188,603	149,155	17,451	-	166,606
Supplies	134,517	12,862	1,790	149,169	143,309	13,702	1,907	158,918
Training, Travel and Conference	125,295	9,862	-	135,157	50,785	3,997	-	54,782
In-Kind Expense (Note 2)	94,800	-	-	94,800	59,461	-	-	59,461
Equipment and Vehicle Expense (Note 8)	50,397	10,807	-	61,204	39,916	8,559	-	48,475
Insurance	42,750	4,749	-	47,499	40,522	4,502	-	45,024
Depreciation and Amortization	46,119	-	-	46,119	40,986	-	-	40,986
Professional Fees	6,591	26,413	-	33,004	5,227	20,948	-	26,175
Project Expenses	24,335	-	-	24,335	21,211	-	-	21,211
Telephone	21,883	1,760	-	23,643	24,307	1,955	-	26,262
Utilities	18,355	3,315	-	21,670	18,629	3,365	-	21,994
Dues and Membership	5,876	8,649	-	14,525	3,861	5,683	-	9,544
Mileage Reimbursement	8,545	176	47	8,768	7,683	158	43	7,884
Direct Fundraising Expense	-	-	6,823	6,823	-	-	3,240	3,240
Fees	-	1,801	115	1,916	-	1,711	109	1,820
Postage, Printing and Advertising	267	287	312	866	350	375	408	1,133
Client Assistance	524	-	-	524	357	-	-	357
Other Expenses	(121)	-	-	(121)	311	-	-	311
Total Expenses	$ 2,728,030	$ 424,398	$ 15,253	$ 3,167,681	$ 2,367,761	$ 403,840	$ 11,457	$ 2,783,058

Consolidated Statements of Cash Flows
For the Years Ended June 30, 2023 and 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Government Agencies	$ 2,913,106	$ 2,255,202
Cash Received from Nongovernmental Contracts, Grantors, Donors and Other Receipts	170,788	205,161
Cash Received from Progrm Service Fees	59,114	53,839
Interest Income	164	338
Cash Paid to Employees and Vendors	(2,983,983)	(2,671,392)
Net Cash Provided (Used) by Operating Activities (Note 4)	159,189	(156,852)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sale of Property and Equipment	9,500	14,500
Purchase of Property and Equipment	(75,652)	(50,375)
Net Cash Used by Investing Activities	(66,152)	(35,875)
CASH FLOWS FROM FINANCING ACTIVITIES	-	-
Net Increase (Decrease) in Cash for the Year	**93,037**	**(192,727)**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	521,809	714,536
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 614,846	$ 521,809

Note 1. ORGANIZATION

Family Support Services of West Hawaii and Subsidiary (FSSWH) was incorporated in April, 1981, as a non-profit corporation under the laws of the State of Hawaiʻi. These consolidated financial statements include the financial statements of Island Therapeutic Specialists (ITS), a limited liability corporation organized in July 2013 under the laws of the State of Hawaiʻi acquired by FSSWH in 2016. Collectively, FSSWH and ITS are referred to as "the Organization".

The Organization's mission is to support families and communities in providing love and care for our children. In fulfilling this mission, the Organization operates programs that assist and support families with children. Funding for the programs is primarily through government contracts and various foundation grants. The Organization operates facilities and programs in Kealakekua, Na'alehu, Kailua-Kona, and Waimea on the Big Island of Hawaiʻi.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Method of Accounting: The Organization's consolidated financial statements are prepared on the accrual basis of accounting according to generally accepted accounting principles. 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.

Cash and Cash Equivalents: For the purpose of the consolidated statements of cash flows, cash is defined as demand deposits, petty cash on hand and savings accounts. The Organization considers cash equivalents to be all unrestricted highly liquid investments with an initial maturity of three months or less.

Accounts Receivable – Grants and Contracts: 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, 2023 and 2022.

Property and Equipment: Property and equipment are stated at cost. Depreciation and amortization 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.

The Organization reviews its property for impairment whenever events or changes indicate that the carrying value of an asset may not be recoverable. The Organization compares the carrying value to its fair value to determine whether an impairment loss has occurred. For the years ended June 30, 2023 and 2022, no impairment loss has been recognized.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Refundable Advances: Conditional contribution revenue is recognized when earned which is as conditions are fulfilled. However, funds received that are not earned as of year-end are recorded as a liability under refundable advances. There were no refundable advances balance at June 30, 2023 and 2022.

Leases: The Organization adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 2016-02 Topic 842, *Leases*, which supersedes FASB ASC Topic 840, *Leases*, and makes other conforming amendments to U.S. GAAP. FASB ASC 2016-02 Topic 842 requires, among other changes to the lease accounting guidance, lessees to recognize leases on the statement of financial position via a right-of-use (ROU) asset and lease liability as well as additional qualitative and quantitative disclosures.

Beginning on July 1, 2022, operating lease assets and liabilities are measured and recorded at the present value of the future minimum lease payments. The determination of whether an arrangement is a lease is made at the lease's inception. An arrangement is (or contains) a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is defined under the standard as having both the right to obtain substantially all of the economic benefits from use of the asset and the right to direct the use of the asset. Management only reassesses its determination if the terms and conditions of the contract are changed. If the interest rate implicit in its leases is not readily determinable, the Organization uses the incremental borrowing rate on its line of credit to determine the present value of lease payments. Leases with an initial term of twelve (12) months or less are not recorded on the statement of financial position.

The Organization adopted these ASUs effective July 1, 2022 and utilized all of the available practical expedients. The adoption had a material impact on the Organization's statement of financial position but did not have a material impact on the statement of activities and changes in net assets. Adoption of the standard required the Organization to restate amounts as of July 1, 2022, resulting in an increase in operating lease ROU assets and lease liabilities of $292,406, less current year amortization of $67,024, results in the balance of $225,382 at June 30, 2023.

Use of Estimates: The preparation of consolidated 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.

Contributed Nonfinancial Assets: Under FASB ASC 958, contributions of donated goods or services that create or enhance non-financial assets or that require specialized skills, and are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received. During the year ended June 30, 2023, the Organization recognized donated rent for the Kealakekua (Greenwell Family Home) facility for $94,800. During the year ended June 30, 2022, the Organization recognized donated rent for the facilities in Kailua-Kona (Kealakehe High School) for $39,061 and Kealakekua (Greenwell Family Home) for $20,400, totaling $59,461.

Functional Expenses: The consolidated financial statements include a statement of functional expenses. Functional expenses are allocated to program related and administrative functions. Expense allocations are generally computed based on the number of employees or contractors performing program or administrative functions.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets: Net assets, revenues, gains and losses are classified based on the existence of or absence of donor- or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions: 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. Board designated net assets without donor restrictions was $28,800 as of June 30, 2023 and 2022.

Net Assets With Donor Restrictions: Net assets with donor restrictions 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 purpose restrictions represent restricted grants and funds received from foundations and donors for which the restrictions have not yet been fulfilled and consist of the following at June 30:

	2023	2022
FISH Speech	$ 12,589	$ 11,049
Helping Keiki Thrive	10,000	-
EIS Specialized Sensory Equipment	5,000	-
Fatherhood	4,424	701
Early Head Start	3,421	-
Dental Supplies	3,360	3,360
Money Matters	3,322	8,642
Keiki Outdoor Play Space	3,000	3,000
No Kid Hungry	2,812	2,942
Promising Minds	745	2,779
Techie for the Keiki	305	1,259
Promising Minds - Data Culture	-	8,000
Total	$ 48,978	$ 41,732

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

Net assets with donor restrictions through perpetuity are also included in the net assets with donor restrictions. 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 the Organization. Investment income from certain endowment funds is restricted for specified purposes. Net assets with donor restrictions through perpetuity was $23,000 as of June 30, 2023 and 2022.

The State of Hawaiʻi enacted the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA), the provisions of which apply to endowment funds existing on or established after that date. The Organization has determined that its net assets with donor restrictions through perpetuity meets the definition of endowment funds under UPMIFA. The Organization has interpreted UPMIFA as requiring the preservation of the fair value of the endowment funds absent explicit donor stipulations to the contrary.

In accordance with UPMIFA, management considers in its determination to appropriate or accumulate donor restricted endowment funds using the following factors:

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

Income Taxes: FSSWH 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 Hawaiʻi Revised Statutes. Therefore, no provision for federal or state income taxes is required for the consolidated financial statements. ITS does not file its own return and income or losses are passed through to the parent, which are exempt from federal and state income taxes.

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 consolidated 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 consolidated 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 years 2023 and 2022. 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 Hawaiʻi. The Organization is generally no longer subject to examination by the Internal Revenue Service for years before 2020.

Reclassifications: Certain reclassifications have been made to prior reported consolidated financial statements to conform to the current period presentation. These reclassifications have no effect on previously reported results of operations and net assets.

Note 3. FAIR VALUE MEASUREMENTS

The Organization 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 consolidated 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.

The following table sets forth, by level within the fair value hierarchy, the Organization's investments measured at fair value on a recurring basis:

Assets:	Total 2023	Quoted Prices: Level 1	Total 2022	Quoted Prices: Level 1
Balanced Index Funds - Stocks	$ 77,195	$ 77,195	$ 69,740	$ 69,740
Balanced Index Funds - Bonds	51,463	51,463	46,493	46,493
Stocks	664	664	712	712
Total	$ 129,322	$ 129,322	$ 116,945	$ 116,945

There are no other financial assets or liabilities measured at fair value on a recurring or nonrecurring basis as of June 30, 2023 and 2022.

Note 4. RECONCILIATION OF CHANGES IN NET ASSETS WITH NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES

	2023	2022
Changes in Net Assets	$ 252,113	$ 116,782
Add: Depreciation and Amortization	46,119	40,986
Unrealized (Gain) Loss on Investments	(12,377)	16,959
(Gain) on Sale of Property and Equipment	(9,500)	(14,500)
Change in Accounts Receivable - Grants and Contracts	(159,945)	(328,298)
Change in Prepaid Expenses	(3,509)	7,695
Change in Security Deposits	-	4,121
Change in Accounts Payable	8,981	(23,595)
Change in Accrued Payroll and Related Expenses	37,307	22,998
Net Cash Provided (Used) by Operating Activities	$ 159,189	$ (156,852)

Note 5. 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 years ended June 30, 2023 and 2022, the 401(k) retirement plan contributions made by the Organization were $51,491 and $46,711, respectively.

Note 6. UNUSED LINE OF CREDIT

The Organization has established a line of credit with the Bank of Hawaiʻi with a maximum borrowing of $150,000 at a rate of the bank's base rate plus 2.5%. The line of credit expires in September 2024 and has a $-0- balance as of June 30, 2023 and 2022, respectively.

Note 7. CONCENTRATIONS

For the fiscal years ending June 30, 2023 and 2022, the Organization received 90% of its revenue from government contracts, most of which are awarded by the State of Hawaiʻi. 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 8. LEASES

The Organization leases facilities and office space in Kealakekua, Naʻalehu, Kailua-Kona, and Waimea under operating leases on the Big Island of Hawaiʻi in order to fulfill its mission, as follows:

Facility in Kealakekua (Greenwell Family Home): The term of the lease agreement is month-to-month with monthly rent payments of $1,771. Subsequent to June 30, 2023, Management was notified by the lessor that the lease will not be renewed after June 2024.

Facility in Naʻalehu: The term of the lease agreement is month-to-month with monthly rent payments of $421, excluding a fixed electricity charge of approximately $70 per month. Management is reasonably certain to remain a tenant until at least June 2024.

Office Space and Facility in Kailua-Kona (Lunapule Center): The term of the lease agreement is month-to-month with monthly rent payments of $4,050, excluding GET and Common Area Maintenance (CAM) charges of approximately $2,350 per month. Management is reasonably certain to remain a tenant until at least June 2026.

Facility in Waimea: In July 2021, the Organization entered into a facility lease in Waimea. The term of the lease agreement is for three (3) years and three (3) months with the option to renew for an additional three-year term ending September 2027. Management is reasonably certain to exercise the renewal option. Base rent ranges from $809 to $893 per month during the initial term, and $937 to $1,027 per month during the extension period, excluding CAM charges of approximately $300 per month.

Note 8. LEASES (Continued)

As of June 30, 2023, the operating lease ROU assets for these facility and office space leases had a balance of $158,389, as part of other non-current assets on the statement of financial position; the lease liabilities are included in current liabilities $59,684 and long-term liabilities $98,705. The weighted average remaining lease term was 3.3 years, and the weighted average discount rate was 7.25%. For the year ending June 30, 2023, base lease expense of $85,449 was recognized in occupancy expense, exclusive of fixed utility and CAM charges.

Maturities of facility and office space operating lease liabilities as of June 30:

2024	$ 59,684
2025	60,231
2026	60,779
2027	12,760
2028	3,227
Total Lease Payments	196,681
Less: Interest	(38,292)
Present Value of Lease Liabilities	$ 158,389

The Organization leases vehicles in order to fulfill its mission, as follows:

Four (4) 2019 Subaru Crosstrek: In May 2019, the Organization entered into operating leases for four (4) 2019 Subaru Crosstrek for a term of 48 months with total lease payments of $1,408 per month. These leases ended in April 2023 and the vehicles were purchased at their total residual value of $46,791.

One (1) 2022 Subaru Crosstrek: In August 2022, the Organization entered into an operating leases for one (1) 2022 Subaru Crosstrek for a term of 48 months with a lease payments of $396 per month at an implicit interest rate of 13%.

Four (4) 2024 Subaru Crosstrek: In May 2023, the Organization entered into operating leases for four (4) 2024 Subaru Crosstrek for a term of 48 months with total lease payments of $1,758 per month at an implicit interest rate of 17%.

As of June 30, 2023, the operating lease ROU assets for these vehicle leases had a balance of $66,993, as part of other non-current assets on the statement of financial position; the lease liabilities are included in current liabilities $25,850 and long-term liabilities $41,143. The weighted average remaining lease term was 3.7 years, and the weighted average discount rate was 16.4%. For the year ending June 30, 2023, lease expense of $20,549 was recognized in equipment and vehicle expense.

Note 8. LEASES (Concluded)

Maturities of vehicle operating lease liabilities as of June 30:

2024	$ 25,850
2025	25,850
2026	25,850
2027	18,370
Total Lease Payments	95,920
Less: Interest	(28,927)
Present Value of Lease Liabilities	$ 66,993

Additionally, the Organization leases printers, firewall hardware and a postage meter for which the remaining lease term is less than one year or the present value of future lease payments is de minimis.

Note 9. 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, 2023	$ 614,846
Less those unavailable for general expenditures within one year due to:	
Restricted by donor with purpose restrictions	(48,978)
Perpetual endowment principle	(23,000)
Financial assets available to meet cash needs for general expenditures within one year	$ 542,868

In addition to the financial assets available above, the Organization has the ability to borrow on the line of credit described in Note 6.

Note 10. DEPOSITS WITH FINANCIAL INSTITUTIONS

The Organization maintains its cash accounts at one financial institution. The balance at times may exceed the Federal Deposit Insurance Corporation (FDIC) insured limit of $250,000 per financial institution. Management acknowledges the possibility of risk in this arrangement; however, the size and longevity of the depository institution minimizes such risk. The following represents a summary of deposits as of June 30:

	2023	2022
Fully Insured Deposits	$ 250,000	$ 250,000
Uninsured and Uncollateralized	364,846	271,809
Total	$ 614,846	$ 521,809

Note 11. SUBSEQUENT EVENTS

In preparing these consolidated financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through December 7, 2023, the date the consolidated financial statements were available to be issued. There are no recognized subsequent events, events that that provide additional evidence about conditions that existed at the statement of financial position date, or non-recognized subsequent events, or events that provide evidence about conditions that did not exist at the statement of financial position date, which are necessary to disclose to keep the consolidated financial statements from being misleading.

Note 12. RECENT ACCOUNTING PRONOUNCEMENTS

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses* (Topic 326): *Measurement of Credit Losses on Financial Instruments*. The ASU provides financial statement users with improved information about expected credit losses on financial instruments and other commitments to extend credit. The amendments affect trade receivables, loans, debt securities, net investments in leases, off-balance sheet credit exposures, reinsurance receivables, and certain other financial assets that have the contractual right to receive cash. ASU 2016-13 is effective for Family Support Services of West Hawaii and Subsidiary's fiscal year ending June 30, 2024. Management is currently evaluating the impact that the adoption of this provision will have on the consolidated financial statements.

FAMILY SUPPORT SERVICES OF WEST HAWAII AND SUBSIDIARY

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2023

Federal Grantor / Pass-through Grantor/ Program Title	**Assistance Listing**	**Grant Number**	**Federal Expenditures**
United States Department of Agriculture			
Passed through the State of Hawaii, Office of Education,			
Hawaii Child Nutrition Program:			
Child and Adult Care Food Program	10.558	Agreement # 2135-1	$ 6,773
Total U.S. Department of Agriculture passed-through programs			6,773
United States Department of Health and Human Services			
Early Head Start (Year 4)	93.600	09CH01089304	1,091,972
Early Head Start (Year 5)	93.600	09CH01089305	203,031
COVID-19 Early Head Start - Coronavirus Aid, Relief, and Economic Security Act (CARES)	93.600	09CH01089302C3	15,374
COVID-19 Early Head Start - American Rescue Plan (ARP)	93.600	09HE00031101C6	72,763
Subtotal Department of Health and Human Services direct programs			1,383,140
Passed through the State of Hawaii, Department of Human Services:			
Temporary Assistance for Needy Families	93.558	DHS-22-POS-0014 SA#1	157,783
Foster Care Title IV-E	93.658	DHS-22-POS-0014 SA#1	116,623
Subtotal Department of Human Services passed-through programs			274,406
Total U.S. Department of Health and Human Services programs			1,657,546
United States Department of Education:			
Passed through the State of Hawaii, Department of Education:			
COVID-19 Special Education - Infants and Toddlers with Disabilities - American Rescue Plan (ARP)	84.181A	ASO Log 22-020	7,113
COVID-19 Special Education - Infants and Toddlers with Disabilities - American Rescue Plan (ARP)	84.181A	ASO Log 22-021	4,248
Total U.S. Department of Education passed-through programs			11,361
Total expenditures of federal awards			**$ 1,675,680**

The accompanying notes are an integral part of this schedule.

Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2023

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 and Subsidiary under programs of the federal government for the year ended June 30, 2023.

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 and Subsidiary, it is not intended to and does not present the consolidated financial position, changes in net assets, or cash flows of Family Support Services of West Hawaii and Subsidiary.

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 minimis cost rate.

Matching Requirements: Certain Federal Programs require non-Federal cost share to support the Federally-funded programs. The Organization has met the matching requirements. The Schedule does not include the expenditure of non-Federal matching funds.

Note C. SUBRECIPIENT PASS THROUGH AWARDS

No Federal awards were passed through to subrecipients.

Carbonaro CPAs & Management Group

Certified Public Accountants
Member: AICPA
HSCPA

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

To the Board of Directors and Management of
Family Support Services of West Hawaii and Subsidiary
Kailua-Kona, Hawaiʻi 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 consolidated financial statements of Family Support Services of West Hawaii and Subsidiary (a nonprofit organization), which comprise the statement financial position as of June 30, 2023, and the related statements of activities, and cash flows for the year end ended and the related notes to the consolidated financial statements, and have issued our report thereon dated December 7, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Family Support Services of West Hawaii and Subsidiary's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Family Support Services of West Hawaii and Subsidiary's internal control. Accordingly, we do not express an opinion on the effectiveness of Family Support Services of West Hawaii and Subsidiary'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 consolidated 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 or significant deficiencies may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Family Support Services of West Hawaii and Subsidiary's consolidated 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 consolidated financial statements. 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 entity'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 & Mgmt Group

Kailua-Kona, Hawai'i
December 7, 2023

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

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Family Support Services of West Hawaii and Subsidiary's compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of Family Support Services of West Hawaii and Subsidiary's major federal programs for the year ended June 30, 2023. Family Support Services of West Hawaii and Subsidiary's major federal programs are identified in the summary of Auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, Family Support Services of West Hawaii and Subsidiary 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, 2023.

Basis for Opinion on Each Major Federal Program

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 the audit 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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Family Support Services of West Hawaii and Subsidiary and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Family Support Services of West Hawaii and Subsidiary's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Family Support Services of West Hawaii and Subsidiary's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Family Support Services of West Hawaii and Subsidiary's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Family Support Services of West Hawaii and Subsidiary's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Family Support Services of West Hawaii and Subsidiary's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.

- Obtain an understanding of Family Support Services of West Hawaii and Subsidiary's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 Family Support Services of West Hawaii and Subsidiary's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 a 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 Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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 & Mgmt Group

Kailua-Kona, Hawai'i
December 7, 2023

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2023

A. SUMMARY OF AUDITORS' RESULTS

<u>Consolidated financial statements</u>

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

<u>Federal Awards</u>

Internal control over Major Programs:	
• Significant Deficiencies	**No**
• Material Weaknesses	**No**
Type of Auditors' report issued in regards to major program compliance:	**Unmodified**
Any audit findings disclosed that are required to be reported in accordance with section 200.516(a) of the Uniform Guidance?	**No**

The programs tested as the major program:

Federal Grantor / Pass-through Grantor/ Program Title	Assistance Listing	Grant Number	Federal Expenditures
United States Department of Health and Human Services:			
Early Head Start (Year 4)	93.600	09CH01089304	$ 1,091,972
Early Head Start (Year 5)	93.600	09CH01089305	203,031
COVID-19 Early Head Start - CARES	93.600	09CH01089302C3	15,374
COVID-19 Early Head Start - ARP	93.600	09HE00031101C6	72,763
Total U.S. Department of Health and Human Services direct programs			$ 1,383,140

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