

Kamili'i Foster Family Agency, Inc.

AUDITED FINANCIAL STATEMENTS

For the Years Ended December 31, 2017 and 2016

**Kamili'i Foster Family Agency, Inc.**  
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For the years ended December 31, 2017 and 2016

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
Kamili'i Foster Family Agency, Inc.  
Lake Elsinore, California

### Report on the Financial Statements

We have audited the accompanying financial statements of Kamili'i Foster Family Agency, Inc., which comprise the statement of financial position as of December 31, 2017 and 2016, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of risks of material misstatement of the 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 financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion of the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kamili'i Foster Family Agency, Inc., as of December 31, 2017 and 2016, 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.

## Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements of Kamili'i Foster Family Agency, Inc. as a whole. The accompanying schedule of expenditures of federal awards, as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, is presented for purposes of additional analysis and is not a required part of the 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 the 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 statement 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 April 30, 2018, on our consideration of Kamili'i Foster Family Agency, Inc.'s internal control over financial reporting and 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 controls over financial reporting and compliance and the results of that testing, and not to provide an opinion of 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 Kamili'i Foster Family Agency, Inc.'s internal control over financial reporting and compliance.



William Harris, CPA  
License Number #103005

Arcadia, California  
April 30, 2018

Kamali'I Foster Family Agency, Inc.  
STATEMENT OF FINANCIAL POSITION  
December 31, 2017 and 2016

	12/31/2017	12/31/2016
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 463,688	\$ 440,363
Accounts Receivable	190,711	170,491
Prepaid Expenses	-	2,590
<b>TOTAL CURRENT ASSETS</b>	<b>654,399</b>	<b>613,444</b>
<b>PROPERTY AND EQUIPMENT</b>		
Furniture and Equipment	23,591	13,382
Computers	15,931	15,931
Accumulated Depreciation	(23,430)	(21,880)
<b>TOTAL PROPERTY AND EQUIPMENT</b>	<b>16,092</b>	<b>7,433</b>
<b>OTHER ASSETS</b>		
Office Lease Deposits	7,000	7,000
<b>TOTAL OTHER ASSETS</b>	<b>7,000</b>	<b>7,000</b>
<b>TOTAL ASSETS</b>	<b>\$ 677,491</b>	<b>\$ 627,877</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable	\$ 98,957	\$ 94,680
Accrued Expenses	8,148	14,117
Accrued Payroll and Taxes	37,046	36,018
<b>TOTAL CURRENT LIABILITIES</b>	<b>144,151</b>	<b>144,815</b>
<b>TOTAL LIABILITIES</b>	<b>144,151</b>	<b>144,815</b>
<b>NET ASSETS</b>		
Unrestricted Net Assets	533,340	482,608
Temporarily Restricted	-	454
<b>TOTAL NET ASSETS</b>	<b>533,340</b>	<b>483,062</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 677,491</b>	<b>\$ 627,877</b>

See Accountants' Report and Notes to Financial Statements.

Kamali'I Foster Family Agency, Inc.  
**STATEMENT OF ACTIVITIES**  
For the Year Ended December 31, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>REVENUE AND SUPPORT</b>			
Foster Care Program	\$ 2,395,609	\$ -	\$ 2,395,609
Net Assets Released from Restrictions	-	(454)	(454)
Donations	4,954	-	4,954
Interest Income	22	-	22
	<u>2,400,585</u>	<u>(454)</u>	<u>2,400,131</u>
<b><i>TOTAL REVENUE AND SUPPORT</i></b>			
<b>OPERATING EXPENSE</b>			
Program Services	2,132,869	-	2,132,869
Management and General	216,984	-	216,984
	<u>2,349,853</u>	<u>-</u>	<u>2,349,853</u>
<b><i>TOTAL OPERATING EXPENSE</i></b>			
<b><i>EXCESS / (DEFICIT) OF REVENUE AND SUPPORT OVER OPERATING EXPENSE</i></b>	50,732	(454)	50,278
<b>NET ASSETS – Beginning of the Year</b>	<u>482,608</u>	<u>454</u>	<u>483,062</u>
<b>NET ASSETS – End of the Year</b>	<u>\$ 533,340</u>	<u>\$ -</u>	<u>\$ 533,340</u>

See Accountants' Report and Notes to Financial Statements.

Kamali'I Foster Family Agency, Inc.  
STATEMENT OF ACTIVITIES  
For the Year Ended December 31, 2016

	Unrestricted	Temporarily Restricted	Total
<b>REVENUE AND SUPPORT</b>			
Foster Care Program	\$ 2,520,028	\$ -	\$ 2,520,028
Net Assets Released from Restrictions	-	(12,668)	(12,668)
Donations	454	-	454
Interest Income	51	-	51
	<b><i>TOTAL REVENUE AND SUPPORT</i></b>	<b><i>(12,668)</i></b>	<b><i>2,507,865</i></b>
<b>OPERATING EXPENSE</b>			
Program Services	2,204,035	-	2,204,035
Management and General	230,327	-	230,327
	<b><i>TOTAL OPERATING EXPENSE</i></b>	<b><i>-</i></b>	<b><i>2,434,362</i></b>
<b><i>EXCESS / (DEFICIT) OF REVENUE AND SUPPORT OVER OPERATING EXPENSE</i></b>	86,171	(12,668)	73,503
<b>NET ASSETS – Beginning of the Year</b>	<b>396,437</b>	<b>13,122</b>	<b>409,559</b>
<b>NET ASSETS – End of the Year</b>	<b>\$ 482,608</b>	<b>\$ 454</b>	<b>\$ 483,062</b>

See Accountants' Report and Notes to Financial Statements.

Kamali'I Foster Family Agency, Inc.  
**STATEMENT OF FUNCTIONAL EXPENSES**  
For the Year Ended December 31, 2017

	Program Services	Management & General	Total Expense
<b>OPERATING EXPENSE</b>			
Director's Wages	\$ 60,320	\$ 60,320	\$ 120,640
Administrative Wages	230,855	97,562	328,417
Social Work Wages	344,459	-	344,459
Payroll Taxes	59,060	14,669	73,729
Workers' Compensation	4,951	1,238	6,189
Medical Insurance	76,668	1,231	77,899
Employee Benefits	13,037	4,736	17,773
Accounting & HR Costs	8,989	4,841	13,830
Accreditation & Memberships	13,567	1,507	15,074
Audit Fees	4,387	2,363	6,750
Advertising & Recruiting	46,150	-	46,150
Auto Expense	12,093	1,344	13,437
Board Expense	-	1,969	1,969
Community Outreach	1,637	-	1,637
County Clothing Allowance	34,633	-	34,633
Program Consulting Fees	5,612	-	5,612
Child Related Costs	12,783	-	12,783
Computer / IT Costs	2,569	1,384	3,953
Foster Parent Payments	1,050,801	-	1,050,801
Liability Insurance	18,276	3,225	21,501
Licenses & Permits	2,446	432	2,878
Office Expenses	14,785	2,609	17,394
Postage & Delivery	2,740	483	3,223
Rent	71,138	12,554	83,692
Repairs & Maintenance	6,499	1,147	7,646
Improvements	-	-	-
Security	680	120	800
Staff Meetings & Training	700	124	824
Payroll Processing Fees	460	461	921
Telephone	8,820	1,557	10,377
Foster Parent Training	17,483	-	17,483
Utilities	3,370	595	3,965
Website & Online Services	1,584	280	1,864
Depreciation	1,317	233	1,550
	<u>2,132,869</u>	<u>216,984</u>	<u>2,349,853</u>
<b>TOTAL OPERATING EXPENSE</b>	<b>\$ <u>2,132,869</u></b>	<b>\$ <u>216,984</u></b>	<b>\$ <u>2,349,853</u></b>

See Accountants' Report and Notes to Financial Statements.

Kamali'I Foster Family Agency, Inc.  
**STATEMENT OF FUNCTIONAL EXPENSES**  
For the Year Ended December 31, 2016

	Program Services	Management & General	Total Expense
<b>OPERATING EXPENSE</b>			
Director's Wages	\$ 63,763	\$ 63,763	\$ 127,525
Administrative Wages	239,432	97,577	337,009
Social Work Wages	312,468	-	312,468
Payroll Taxes	47,650	12,487	60,137
Workers' Compensation	5,950	1,488	7,438
Medical Insurance	50,034	7,260	57,294
Employee Benefits	14,275	6,118	20,393
Accounting & HR Costs	4,932	2,655	7,587
Accreditation & Memberships	9,910	1,101	11,011
Audit Fees	12,480	6,720	19,200
Advertising & Recruiting	19,395	-	19,395
Auto Expense	10,922	1,214	12,136
Board Expense	-	4,471	4,471
Community Outreach	4,263	-	4,263
County Clothing Allowance	35,225	-	35,225
Program Consulting Fees	4,880	4,880	9,759
Child Related Costs	11,566	-	11,566
Computer / IT Costs	122	65	187
Foster Parent Payments	1,243,998	-	1,243,998
Liability Insurance	7,705	1,360	9,065
Licenses & Permits	22	4	26
Office Expenses	19,808	3,495	23,303
Postage & Delivery	2,259	399	2,658
Rent	38,200	6,741	44,941
Repairs & Maintenance	7,213	1,273	8,486
Improvements	7,795	1,376	9,170
Security	948	167	1,115
Staff Meetings & Training	5,777	1,020	6,797
Payroll Processing Fees	852	852	1,703
Telephone	15,450	2,727	18,177
Foster Parent Training	415	-	415
Utilities	2,580	455	3,035
Website & Online Services	1,381	244	1,625
Depreciation	2,366	418	2,784
	<u>2,204,035</u>	<u>230,327</u>	<u>2,434,362</u>
<b>TOTAL OPERATING EXPENSE</b>	<b>\$ <u>2,204,035</u></b>	<b>\$ <u>230,327</u></b>	<b>\$ <u>2,434,362</u></b>

See Accountants' Report and Notes to Financial Statements.

Kamali'I Foster Family Agency, Inc.  
**STATEMENT OF CASH FLOWS**  
For the Years Ended December 31, 2017 and 2016

	<i>12/31/2017</i>	<i>12/31/2016</i>
<b>CASH FROM OPERATING ACTIVITIES:</b>		
Excess / (Deficit) of Revenue and Support Over Operating Expense	\$ 50,732	\$ 86,171
Net Assets Released from Restrictions	(454)	(12,668)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided / (Used) by Operating Activities:		
Depreciation	1,550	2,784
Change in Accounts Receivable	(20,220)	39,534
Change in Prepaid Expenses	2,590	9,065
Change in Accounts Payable	4,277	(7,358)
Change in Accrued Expenses	(5,969)	(65,290)
Change in Accrued Payroll & Taxes	1,028	5,580
<b><i>NET CASH PROVIDED / (USED) BY OPERATING ACTIVITIES</i></b>	<b>33,534</b>	<b>57,818</b>
<b>CASH FROM INVESTING ACTIVITIES:</b>		
Purchase of Office Furniture and Equipment	(10,209)	(7,748)
Change in Lease Deposits	-	(3,207)
<b><i>NET CASH PROVIDED / (USED) BY INVESTING ACTIVITIES</i></b>	<b>(10,209)</b>	<b>(10,955)</b>
<b>CASH FROM FINANCING ACTIVITIES:</b>		
None	-	-
<b><i>NET CASH PROVIDED / (USED) BY FINANCING ACTIVITIES</i></b>	<b>-</b>	<b>-</b>
<b>NET INCREASE / (DECREASE) IN CASH</b>	<b>23,325</b>	<b>46,863</b>
<b>CASH – Beginning of the Year</b>	<b>440,363</b>	<b>393,500</b>
<b>CASH – Ending of the Year</b>	<b>\$ 463,688</b>	<b>\$ 440,363</b>
 <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Interest Paid	\$ -	\$ -
Taxes Paid	\$ 10	\$ 10

See Accountants' Report and Notes to Financial Statements.

**Kamili'i Foster Family Agency, Inc.**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Years Ended December 31, 2017 and 2016

**NOTE 1:      ORGANIZATION**

Kamili'i Foster Family Agency, Inc., (the Organization), a nonprofit organization, was incorporated as a California nonprofit corporation on January 23, 1998.

The Organization operates a foster family program within Riverside and San Diego counties in Southern California that offers foster care for abused, neglected and abandoned children through services delivered by private families. The foster parents are trained, supervised and supported by the Organization's staff. The children also received ongoing counseling from the Organization. The goal of the program is to have the children reach and maintain a level of behavior which will allow them the opportunity to function productively in society.

**NOTE 2:      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Method of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting which is in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Financial Statement Presentation

Basis of Accounting

The financial statements are presented based on ASC Topic 958, *Not-for-Profit Entities*. ASC Topic 958, Sections 210 and 225, requires classification of the Organization's net assets and revenues, as well as expenses based on the existence or absence of donor-imposed restrictions. The statement requires presentation of the amounts for each of the three classes of net assets—permanently restricted, temporarily restricted, and unrestricted—in the statement of financial position and the amounts of change in each of those classes of net assets in the statement of activities.

Contributions

Contributions received, including unconditional promises to give, are recognized as revenue at their fair value in the period received. Contributions and net assets are classified based on the existence or absence of donor-imposed restrictions. As such, the net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.

**Kamili'i Foster Family Agency, Inc.**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Years Ended December 31, 2017 and 2016

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributions (continued)

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met, either by action of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. The Organization does have temporarily restricted net assets.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they are to be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on any related investments for general or specific purposes. The Organization does not have permanently restricted net assets.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. The disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported time. Actual results could differ from those activities.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents. There were no cash equivalents as of December 31, 2017 and 2016.

Allowance for Doubtful Accounts

Bad debts are recognized on the allowance method based on historical experience and management's evaluation of outstanding receivables. Management believes that all accounts receivable were fully collectible; therefore, no allowance for doubtful accounts receivable was recorded at December 31, 2017 and 2016.

**Kamili'i Foster Family Agency, Inc.**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Years Ended December 31, 2017 and 2016

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Capitalization and Depreciation

Property and equipment in excess of \$1,000 are capitalized and stated at cost. Depreciation is provided on the straight-line method over the estimated useful lives of the respective assets.

The estimated useful asset lives are as follows:

Office Equipment	5 years
Office Furniture	5 years
Computers	5 years

The costs of repairs and maintenance are charged to expenses as incurred, significant renewals and betterment costs are capitalized. When an asset is sold, or otherwise disposed of, the related cost and accumulated depreciation are removed from the respective accounts and any gain or loss on disposition is recognized in current income.

Revenue Recognition

The Organization's revenue is generated through performance of services for government entities under various contracts for which they are paid a fixed fee or on a cost-reimbursement basis. Revenue is recognized as the services are provided and/or costs are incurred. Accounts receivable are recorded when revenue earned under a contract exceeds the cash received.

Contributions are recognized when the donor makes a promise to give to the Organization that is in substance, unconditional. Contributions that are restricted by the donor are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Contributions to be received in future periods are discounted at an appropriate discount rate. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

Donated Services and Materials

The Organization utilizes the services of many volunteers throughout the year. This contribution of services by the volunteers is not recognized in the financial statements unless the services received (a) create or enhance nonfinancial assets or (b) require specialized skills which are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. The donated services for the years ended December 31, 2017 and 2016, did not meet the requirements above; therefore, no amounts were recognized in the financial statements.

**Kamili'i Foster Family Agency, Inc.**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Years Ended December 31, 2017 and 2016

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Functional Classification of Expenses

The Organization reports its expenses on a functional basis. Expenses that can be specifically identified as program services or management and general are charged directly to that classification. Other expenses that are common to both classifications are allocated based on various relationships.

Concentration of Credit Risks

*Credit Risk – Banks*

The Organization maintains its cash in bank deposit accounts which, at times and as of December 31, 2017 and 2016 was \$362,713 and \$313,431, respectively, which exceed federally insured limits of \$250,000. No loss was incurred by the Organization. The Organization believes it is not exposed to any significant credit risk on cash and cash equivalents.

*Accounts Receivable and Revenue*

The primary receivable balance at December 31, 2017 and 2016 consists of government contract receivables due from county, state and federal granting agencies. Concentrations of credit risks with respect to these receivables consist of earned fees from contract programs granted by government agencies. As of December 31, 2017 and 2016, more than 99.9% of revenue generated by the Organization was derived from government contracts.

Income Tax

The Organization is exempt from federal and state income taxes under Internal Revenue Code Section 501(c) (3) and California Revenue and Taxation Code Section 23701 (d). Accordingly, no provision for income taxes has been made in these financial statements.

The Organization's Returns of Organization Exempt from Income Tax for the years ended December 31, 2017, 2016, 2015, and 2014 are subject to examination by the Internal Revenue Service and State taxing authorities, generally three to four years after the returns were filed. The Organization believes it has appropriate support for any tax positions taken and, as such, does not have any uncertain tax positions that are material to the financial statements.

Reclassifications

Certain accounts in the December 31, 2016 have been reclassified for comparative purposes to conform to the December 31, 2017 presentation in the current year financial statements.

**Kamili'i Foster Family Agency, Inc.**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Years Ended December 31, 2017 and 2016

**NOTE 3: ACCOUNTS RECEIVABLE**

Receivables are all due from the Department of Children Social Services (DCSS). No allowance for uncollectible receivables has been made as all amounts were collected during subsequent months following the year ended December 31, 2017 and 2016.

**NOTE 4: PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following:

	2017	2016
Office Furniture & Equipment	\$ 23,591	\$ 13,382
Computers	15,931	15,931
Less: Accumulated depreciation	(23,430)	(21,880)
Total	\$ 16,092	\$ 7,433

Depreciation expense for the years ended December 31, 2017 and 2016 was \$ 1,550 and \$2,784, respectively.

**NOTE 5: LEASE COMMITMENTS**

The Organization occupies two commercial properties; Lake Elsinore and San Marcos. The lease for its Lake Elsinore facility expires on August 31 2021. The lease for the San Marcos facility was renewed in the subsequent period and expires on March 31, 2021. Both leases have options to renew at the term of the leases.

The minimum lease obligations are as follows:

<u>Year Ended</u> <u>December 31,</u>	
2018	\$ 84,398
2019	84,518
2020	84,861
2021	50,154
Total	\$ 303,931

Rent expense for the years ended December 31, 2017 and 2016 was \$83,692 and \$44,941, respectively.

**Kamili'i Foster Family Agency, Inc.**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Years Ended December 31, 2017 and 2016

**NOTE 6: TEMPORARILY RESTRICTED NET ASSETS**

The Organization has temporarily restricted net assets as follows:

	2017	2016
Donor-restricted Assets	\$ -	\$ 454

For the years ended December 31, 2017 and 2016, \$454 and \$12,668, respectively, was released from donor restrictions by incurring expenses satisfying the purpose specified by donors.

**NOTE 7: RETIREMENT PLAN**

The Organization provides a retirement plan that covers all eligible employees. Under the retirement plan, the Organization makes matching contributions at various percentages not to exceed 3% of the eligible wages. The Organization made contributions of \$17,773 and \$20,393 during the years ended December 31, 2017 and 2016, respectively.

**NOTE 8: FOSTER CARE REVENUE**

The Organization receives foster care payments for its children from the Riverside and San Diego Counties during the current year. Such funds have been passed through the State of California Department of Social Services as fee for service. A portion of the funds originated from the Aid to Family with Dependent Children – Foster Care (AFDC-FC) program. The AFDC-FC program is a federal entitlement program through Title IV-E of the Social Security Act. The funds received by the Organization represent substantially all of the total revenue for the years ended December 31, 2017 and 2016.

**NOTE 9: COMMITMENTS & CONTINGENCIES**

The Organization grants and contracts are subject to inspection and audit by the appropriate governmental funding agencies. The purpose is to determine whether the program funds were used in accordance with their respective guidelines and regulations. The potential exists for disallowance of previously funded program costs. The ultimate liability, if any, which may result from these government audits, cannot be reasonably estimated and, accordingly, the Organization has no provisions for the possible disallowance of program costs on its financial statements

**Kamili'i Foster Family Agency, Inc.**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Years Ended December 31, 2017 and 2016

**NOTE 10:     SUBSEQUENT EVENTS**

Events subsequent to December 31, 2017 have been evaluated through April 30, 2018, the date at which the Organization's audited financial statements were available to be issued. No events requiring disclosure have occurred through this date.



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**INDEPENDENT AUDITOR'S REPORT ON SCHEDULE OF EXPENDITURES OF  
FEDERAL AWARDS, REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Directors of  
Kamili'i Foster Family Agency, Inc.  
Lake Elsinore, California

We have audited the financial statements of Kamili'i Foster Family Agency, Inc. (a nonprofit organization), as of and for the years ended December 31, 2017 and 2016, and have issued our report thereon dated April 30, 2018, which contained an unmodified opinion on those financial statements.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the 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 the 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in black ink that reads 'William Harris, CPA'. The signature is written in a cursive style.

William Harris, CPA  
License Number #103005

Arcadia, California  
April 30, 2018

**Kamili'i Foster Family Agency, Inc.**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For the years ended December 31, 2017 and 2016**

<u>Pass-through Program</u>	<u>Federal CFDA Number</u>	<u>Contract Total</u>	<u>Federal Revenue Received</u>	<u>Federal Disbursements /Expenditures</u>
U.S. Department of Health and Human Services: Pass-through: State Department of Social Services:				
<b><u>Year ended December 31, 2017</u></b>				
Foster Care – Title IV-E	93.658	\$ 2,395,609	\$ 1,231,343	\$ 2,349,853
Totals		<u>\$ 2,395,609</u>	<u>\$ 1,231,343</u>	<u>\$ 2,349,853</u>
<b><u>Year ended December 31, 2016</u></b>				
Foster Care – Title IV-E	93.658	\$ 2,520,028	\$ 1,295,294	\$ 2,434,362
Totals		<u>\$ 2,520,028</u>	<u>\$ 1,295,294</u>	<u>\$ 2,434,362</u>

Note A – Basis of Presentation

The above schedule of expenditures of federal awards includes the federal award activity of Kamili'i Foster Family Agency, Inc., under programs of the federal government for the years ended December 31, 2017 and 2016 and is presented on the accrual basis of accounting. 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). Therefore, because the Schedule presents only selected portion of the operations of Kamili'i Foster Family Agency, Inc., it is not intended to and does not present the financial position, changes in net assets or cash flows of Kamili'i Foster Family Agency, Inc.

Note B – Foster Care

During the years ended December 31, 2017 and 2016, funds totaling \$2,395,609 and \$2,520,028, respectively, were received from the California Department of Social Services. While the grant agreement indicates that the source of the funds includes both federal (CFDA 93.658) and state awards, the grantor has not provided the Organization with the amount of federal funds included. Because the federal portion of the expenditures is unknown, the full amount is included in the above schedule of expenditures of federal awards.



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

To the Board of Directors of  
Kamili'i Foster Family Agency, Inc.  
Lake Elsinore, California

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 financial statements of Kamili'i Foster Family Agency, Inc., (the Organization) (a nonprofit organization), which comprise the statement of financial position as of December 31, 2017 and 2016, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated April 30, 2018.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Kamili'i Foster Family Agency, Inc.'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 Kamili'i Foster Family Agency, Inc.'s internal control over financial reporting. 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 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 over financial reporting 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 over financing 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 Kamili'i Foster Family Agency, Inc.'s financial statements are free of 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.

A handwritten signature in black ink that reads "William Harris C.P.A." with a stylized flourish at the end.

William Harris, CPA  
License Number #103005

Arcadia, California  
April 30, 2018

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

To the Board of Directors of  
Kamili'i Foster Family Agency, Inc.  
Lake Elsinore, California

**Report on Compliance for Each Major Federal Program**

We have audited Kamili'i Foster Family Agency, Inc.'s compliance with the types of compliances requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Kamili'i Foster Family Agency, Inc.'s major federal programs for the years ended December 31, 2017 and 2016. Kamili'i Foster Family Agency, Inc.'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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of Kamili'i Foster Family Agency, Inc.'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 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)*. 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 Kamili'i Foster Family Agency, Inc.'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 Kamili'i Foster Family Agency, Inc.'s compliance.

## Opinion on Each Major Federal Program

In our opinion, Kamili'i Foster Family Agency, Inc. 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 years ended December 31, 2017 and 2016.

## Report on Internal Control over Compliance

Management of Kamili'i Foster Family Agency, Inc. 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 Kamili'i Foster Family Agency, Inc.'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 Kamili'i Foster Family Agency, Inc.'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 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 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.



William Harris, CPA  
License Number #103005

Arcadia, California  
April 30, 2018

**Kamili'i Foster Family Agency, Inc.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**For the Years Ended December 31, 2017 and 2016**

**Section I – Summary of Auditor’s Results**

**Financial Statements**

Type of auditor's report issued:	Unmodified
Internal control over financial reporting Material weakness(es) identified?	[ ] yes [ x ] no
Significant deficiency(ies) identified that are not considered to be material weakness(es)	[ ] yes [ x ] none reported
Noncompliance material to financial statements noted?	[ ] yes [ x ] no

**Federal Awards**

Type of auditor's report issued on compliance for major programs:	Unmodified
Internal control over major programs: Material weakness(es) identified?	[ ] yes [ x ] no
Significant deficiency(ies) identified that are not considered to be material weakness(es)	[ ] yes [ x ] none reported
Any audit finding disclosed that are required to be reported in accordance with 2 CFR Section 200.51(a)?	[ ] yes [ x ] no

**Identification of major programs:**

CFDA Number(s)	<u>Name of Federal Program or Cluster</u>
93.658	U.S. Department of Health and Human Services – Foster Care Title IV-E

**Kamili'i Foster Family Agency, Inc.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**For the Years Ended December 31, 2017 and 2016**

**Section I – Summary of Auditor's Results (Continued)**

Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000
Auditee qualified as low-risk auditee?	[ x ] yes [ ] no

**Section II – Findings – Financial Statements**

None for the current audit period.

**Section III – Major Findings and Questioned Costs – Federal Awards Program Audit**

None for the current audit period.

**Section IV – Summary schedule of Prior Year Findings**

There were no audit finding for Kamili'i Foster Family Agency, Inc, for the year ended December 31, 2016.