

KAMALI'I FOSTER FAMILY AGENCY, INC.

AUDITED FINANCIAL STATEMENTS

For the Years Ended December 31, 2018 and 2017

KAMALI'I FOSTER FAMILY AGENCY, INC.
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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Kamali'i Foster Family Agency, Inc., which comprise the statement of financial position as of December 31, 2018 and 2017, 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 Kamali'i Foster Family Agency, Inc., as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements of Kamali'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 23, 2019, on our consideration of Kamali'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 Kamali'i Foster Family Agency, Inc.'s internal control over financial reporting and compliance.



William Harris, CPA
License Number #103005

Arcadia, California
April 23, 2019

KAMALI'I FOSTER FAMILY AGENCY, INC.
STATEMENT OF FINANCIAL POSITION
December 31, 2018 and 2017

	<u>12/31/2018</u>	<u>12/31/2017</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 419,094	\$ 463,688
Accounts Receivable	194,424	190,711
TOTAL CURRENT ASSETS	<u>613,518</u>	<u>654,399</u>
PROPERTY AND EQUIPMENT		
Furniture and Equipment	23,591	23,591
Computers	15,931	15,931
Accumulated Depreciation	(27,022)	(23,430)
TOTAL PROPERTY AND EQUIPMENT	<u>12,500</u>	<u>16,092</u>
OTHER ASSETS		
Office Lease Deposits	7,000	7,000
TOTAL OTHER ASSETS	<u>7,000</u>	<u>7,000</u>
TOTAL ASSETS	<u>\$ 633,018</u>	<u>\$ 677,491</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 103,219	\$ 98,957
Accrued Expenses	5,898	8,148
Accrued Payroll & Taxes	53,955	37,046
TOTAL CURRENT LIABILITIES	<u>163,072</u>	<u>144,151</u>
TOTAL LIABILITIES	<u>163,072</u>	<u>144,151</u>
NET ASSETS		
Net Assets Without Donor Restrictions	469,946	533,340
TOTAL NET ASSETS	<u>469,946</u>	<u>533,340</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 633,018</u>	<u>\$ 677,491</u>

See Auditor's Report and Notes to Financial Statements.

KAMALI'I FOSTER FAMILY AGENCY, INC.
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING ACTIVITIES:			
REVENUE AND SUPPORT			
Foster Care Program	\$ 2,274,845	\$ -	\$ 2,274,845
Contract \ Assessment Services	74,901	-	74,901
Donations	32,715	-	32,715
TOTAL REVENUE AND SUPPORT	2,382,461	-	2,382,461
OPERATING EXPENSE			
Program Activities	2,236,899	-	2,236,899
Supporting Activities	208,956	-	208,956
TOTAL OPERATING EXPENSE	2,445,855	-	2,445,855
EXCESS / (DEFICIT) OF REVENUE AND SUPPORT OVER OPERATING EXPENSE	(63,394)	-	(63,394)
NET ASSETS – Beginning of the Year	533,340	-	533,340
NET ASSETS – End of the Year	\$ 469,946	\$ -	\$ 469,946

See Auditor's Report and Notes to Financial Statements.

KAMALI'I FOSTER FAMILY AGENCY, INC.
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2017

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
OPERATING ACTIVITIES:			
REVENUE AND SUPPORT			
Foster Care Program	\$ 2,372,109	\$ -	\$ 2,372,109
Contract \ Assessment Services	23,500	-	23,500
Net Assets Released from Restrictions	-	(454)	(454)
Donations	4,954	-	4,954
Interest Income	22	-	22
TOTAL REVENUE AND SUPPORT	<u>2,400,585</u>	<u>(454)</u>	<u>2,400,131</u>
OPERATING EXPENSE			
Program Activities	2,132,869	-	2,132,869
Supporting Activities	216,984	-	216,984
TOTAL OPERATING EXPENSE	<u>2,349,853</u>	<u>-</u>	<u>2,349,853</u>
EXCESS / (DEFICIT) OF REVENUE AND SUPPORT OVER OPERATING EXPENSE	50,732	(454)	50,278
NET ASSETS – Beginning of the Year	<u>482,608</u>	<u>454</u>	<u>483,062</u>
NET ASSETS – End of the Year	<u>\$ 533,340</u>	<u>\$ -</u>	<u>\$ 533,340</u>

See Auditor's Report and Notes to Financial Statements.

KAMALI'II FOSTER FAMILY AGENCY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2018

	<u>Program Activities</u>	<u>Supporting Activities</u>	<u>Total Expense</u>
	<u>Foster Care Program</u>	<u>Management & General</u>	
OPERATING EXPENSE			
Director's Wages	\$ 62,336	\$ 62,336	\$ 124,672
Administrative Wages	323,458	91,598	415,056
Social Work Wages	400,814	-	400,814
Payroll Taxes	61,482	12,032	73,514
Workers' Compensation	4,468	1,117	5,585
Medical Insurance	74,000	914	74,914
Employee Benefits	14,274	4,618	18,892
Accounting & HR Costs	9,129	4,915	14,044
Accreditation & Memberships	5,781	642	6,423
Audit Fees	4,062	2,188	6,250
Advertising & Recruiting	58,965	-	58,965
Auto Expense	13,692	1,521	15,213
Board Expense	-	2,679	2,679
Community Outreach	429	-	429
County Clothing Allowance	6,143	-	6,143
Program Consulting Fees	7,020	-	7,020
Child Related Costs	5,175	-	5,175
Computer / IT Costs	869	468	1,337
Foster Parent Payments	1,029,905	-	1,029,905
Liability Insurance	16,952	2,991	19,943
Licenses & Permits	25	5	30
Office Expenses	15,871	2,801	18,672
Postage & Delivery	1,858	328	2,186
Rent	63,724	11,245	74,969
Repairs & Maintenance	6,344	1,120	7,464
Program Expense	12,196	2,152	14,348
Security	704	124	828
Staff Meetings & Training	2,302	406	2,708
Telephone	7,864	1,388	9,252
Foster Parent Training	19,307	-	19,307
Utilities	3,338	589	3,927
Website & Online Services	1,359	240	1,599
Depreciation	3,053	539	3,592
TOTAL OPERATING EXPENSE	\$ 2,236,899	\$ 208,956	\$ 2,445,855

See Auditor's Report and Notes to Financial Statements.

KAMALI'I FOSTER FAMILY AGENCY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2017

	<u>Program Activities</u> Program Services	<u>Supporting Activities</u> Management & General	Total Expense
OPERATING EXPENSE			
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	19,687	2,587	22,274
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	65,018	11,474	76,492
Repairs & Maintenance	6,499	1,147	7,646
Program Expense	460	461	921
Security	680	120	800
Staff Meetings & Training	700	124	824
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
TOTAL OPERATING EXPENSE	\$ 2,132,869	\$ 216,984	\$ 2,349,853

See Auditor's Report and Notes to Financial Statements.

KAMALI'I FOSTER FAMILY AGENCY, INC.
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2018 and 2017

	<u>12/31/2018</u>	<u>12/31/2017</u>
CASH FROM OPERATING ACTIVITIES:		
Excess / (Deficit) of Revenue and Support Over Operating Expense	\$ (63,394)	\$ 50,278
Adjustments to Reconcile Change in Net Assets to Net Cash Provided / (Used) by Operating Activities:		
Depreciation	3,592	1,550
Change in Accounts Receivable	(3,713)	(20,220)
Change in Prepaid Expenses	-	2,590
Change in Accounts Payable	4,262	4,277
Change in Accrued Expenses	(2,250)	(5,969)
Change in Accrued Payroll & Taxes	16,909	1,028
NET CASH PROVIDED / (USED) BY OPERATING ACTIVITIES	<u>(44,594)</u>	<u>33,534</u>
CASH FROM INVESTING ACTIVITIES:		
Purchase of Office Furniture and Equipment	-	(10,209)
NET CASH PROVIDED / (USED) BY INVESTING ACTIVITIES	<u>-</u>	<u>(10,209)</u>
CASH FROM FINANCING ACTIVITIES:		
None	-	-
NET CASH PROVIDED / (USED) BY FINANCING ACTIVITIES	<u>-</u>	<u>-</u>
NET INCREASE / (DECREASE) IN CASH	(44,594)	23,325
CASH – Beginning of the Year	<u>463,688</u>	<u>440,363</u>
CASH – Ending of the Year	<u>\$ 419,094</u>	<u>\$ 463,688</u>
 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest Paid	\$ -	\$ -
Taxes Paid	<u>\$ 10</u>	<u>\$ 10</u>

See Auditor's Report and Notes to Financial Statements.

KAMALI'I FOSTER FAMILY AGENCY, INC.
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2018 and 2017

NOTE 1: ORGANIZATION

Kamali'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.

The Organization is funded primarily through contracts funded by the federal government and the State of California Department of Children and Family Services.

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, dated August 2016, and the provisions of the American Institute of Certified Public Accountants (AICPA) "Audit and Accounting Guide for Not-for-Profit Organizations" (the "Guide"). (ASC) 958-205 was effective January 1, 2018.

Under the provisions of the Guide, net assets and revenues, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified as follows:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. The Organization's Board of Directors may designate assets without restrictions for specific operational purposes from time to time.

KAMALI'I FOSTER FAMILY AGENCY, INC.
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2018 and 2017

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Contributions

Unconditional contributions are recognized when pledged and recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Gifts of cash and other assets are reported with donor restricted support if they are received with donor stipulations that limit the use of the donated assets. When a restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as net assets without donor restriction support. Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Contributions restricted for the acquisition of land, buildings, and equipment are reported as net assets without donor restriction upon acquisition of the assets and the assets are placed in service.

Measure of Operations

The statements of activities report all changes in net assets, including changes in net assets from operating and non-operating activities. Operating activities consist of those items attributable to Kamali'i Foster Family Agency, Inc.'s ongoing activities. Non-operating activities are limited to resources that generate return from investments, endowment contributions, financing costs, and other activities considered to be of a more unusual or nonrecurring nature.

New Accounting Pronouncement

On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. Kamali'i Foster Family Agency, Inc. has adjusted the presentation of these statements accordingly. The ASU 2016-14 has been applied retrospectively to all periods presented.

KAMALI'I FOSTER FAMILY AGENCY, INC.
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2018 and 2017

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2018 and 2017, respectively.

Allowance for Doubtful Accounts

Bad debts are recognized on the allowance method based on historical experience and management's evaluation of outstanding receivables. The accounts receivable are from government contracts; therefore, management believes that all accounts receivable were fully collectible. No allowance for doubtful accounts receivable was recorded at December 31, 2018 and 2017, respectively.

Capitalization and Depreciation

Property and equipment in excess of \$5,000 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.

KAMALI'I FOSTER FAMILY AGENCY, INC.
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2018 and 2017

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

The Organization received a total of \$32,715, and \$ 4,954 of donations for the years ended December 31, 2018 and 2017, respectively, that were unrestricted

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, 2018 and 2017, did not meet the requirements above; therefore, no amounts were recognized in the financial statements.

Reclassifications

Certain accounts in the December 31, 2017 have been reclassified for comparative purposes to conform to the December 31, 2018 presentation in the current year financial statements.

KAMALI'I FOSTER FAMILY AGENCY, INC.
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2018 and 2017

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.

The expenses that are allocated including the following:

<u>Expense</u>	<u>Method of Allocation</u>
Salaries and Benefits	Time and Effort
Foster Parent Payment	Time and Effort
Training and Education	Time and Effort
Occupancy	Time and Effort
Office and Administration	Time and Effort
Professional	Full Time Equivalent
Other	Time and Effort

Concentration of Credit Risks

Credit Risk – Banks

The Organization maintains its cash in bank deposit accounts which, at times and as of December 31, 2018 and 2017 was \$70,257 and \$112,713, respectively, exceed federally insured limits. 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, 2018 and 2017 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, 2018, and 2017, more than 99.9% of revenue generated by the Organization was derived from government contracts.

KAMALI'I FOSTER FAMILY AGENCY, INC.
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2018 and 2017

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2018, 2017, 2016, and 2015 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.

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, 2018 and 2017.

NOTE 4: PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	2018	2017
Office Furniture & Equipment	\$ 23,591	\$ 23,591
Computers	15,931	15,931
Less: Accumulated depreciation	(27,022)	(23,430)
Total	\$ 12,500	\$ 16,092

Depreciation expense for the years ended December 31, 2018 and 2017 was \$3,592 and \$1,550, respectively.

KAMALI'I FOSTER FAMILY AGENCY, INC.
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2018 and 2017

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>	
2019	\$ 84,518
2020	84,861
2021	<u>50,154</u>
Total	<u>\$ 219,533</u>

The net rent expense for the years ended December 31, 2018 and 2017 was \$74,969 and \$76,492, respectively.

NOTE 6: RETIREMENT PLAN

The Organization provides a (401K) 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 \$18,892 and \$17,773 during the years ended December 31, 2018 and 2017, respectively.

NOTE 7: FOSTER CARE REVENUE

The Organization receives foster care payments for its children mainly from the Riverside, San Bernardino and San Diego Counties. 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, 2018 and 2017.

KAMALI'I FOSTER FAMILY AGENCY, INC.
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2018 and 2017

NOTE 8: LIQUIDITY

Kamali'i Foster Family Agency, Inc.'s financial assets available within one year of the balance sheet date for general expenditure are as follows:

Cash and cash equivalents	\$ 419,094
Accounts receivable, net	<u>194,424</u>
	<u>\$ 613,518</u>

Kamali'i Foster Family Agency, Inc.'s financial assets are all available for general use as of December 31, 2018 and 2017. The Organization does not have donor-restricted endowment fund or investment account.

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.

NOTE 10: SUBSEQUENT EVENTS

Events subsequent to December 31, 2018 have been evaluated through April 23, 2019, 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
Kamali'i Foster Family Agency, Inc.
Lake Elsinore, California

We have audited the financial statements of Kamali'i Foster Family Agency, Inc. (a nonprofit organization), as of and for the year ended December 31, 2018, and have issued our report thereon dated April 23, 2019, 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 cursive script that reads 'William Harris CPA'.

William Harris, CPA
License Number #103005

Arcadia, California
April 23, 2019

Kamali'i Foster Family Agency, Inc.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2018

<u>Pass-through Program</u>	<u>Federal CFDA Number</u>	<u>Total Funding Received</u>	<u>Federal Expenditures</u>	<u>Total Expenditures</u>
U.S. Department of Health and Human Services: Pass-through: State Department of Social Services:				
Foster Care – Title IV-E	93.658	\$ <u>2,349,746</u>	\$ <u>1,376,965</u>	\$ <u>2,445,855</u>

Note A – Basis of Presentation

The above schedule of expenditures of federal awards includes the federal award activity of Kamali'i Foster Family Agency, Inc., under programs of the federal government for the year ended December 31, 2018, and it 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 Kamali'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 Kamali'i Foster Family Agency, Inc.

Note B – Foster Care

During the year ended December 31, 2018, funds totaling \$2,349,746 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 of expenditures is included in the above schedule of expenditures of federal awards.

**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
Kamali'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 Kamali'i Foster Family Agency, Inc., (the Organization) (a nonprofit organization), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 23, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Kamali'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 Kamali'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 Kamali'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.



William Harris, CPA
License Number #103005

Arcadia, California
April 23, 2019



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**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
Kamali'i Foster Family Agency, Inc.
Lake Elsinore, California

Report on Compliance for Each Major Federal Program

We have audited Kamali'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 Kamali'i Foster Family Agency, Inc.'s major federal programs for the year ended December 31, 2018. Kamali'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 Kamali'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 Kamali'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 Kamali'i Foster Family Agency, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, Kamali'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 year ended December 31, 2018.

Report on Internal Control over Compliance

Management of Kamali'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 Kamali'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 Kamali'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 23, 2019

KAMALI'I FOSTER FAMILY AGENCY, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2018

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 no

Significant deficiency(ies) identified that are
not considered to be material weakness(es) yes none reported

Noncompliance material to financial statements
noted? yes 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 no

Significant deficiency(ies) identified that are
not considered to be material weakness(es) yes none reported

Any audit finding disclosed that are required to
be reported in accordance with 2 CFR Section
200.51(a)? yes 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

KAMALI'I FOSTER FAMILY AGENCY, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2018

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 Kamali'i Foster Family Agency, Inc, for the year ended December 31, 2017.