

HARBOR INTERFAITH SERVICES, INC.

**AUDITED FINANCIAL STATEMENTS
OTHER INFORMATION, AND
SINGLE AUDIT REPORT**

For The Year Ended December 31, 2017



QUEZADA, WONG & ASSOCIATES, INC.
CERTIFIED PUBLIC ACCOUNTANTS and CONSULTANTS

HARBOR INTERFAITH SERVICES, INC.
AUDITED FINANCIAL STATEMENTS AND OTHER INFORMATION
For The Year Ended December 31, 2017

TABLE OF CONTENTS

	<u>Page</u>
REPORT OF INDEPENDENT AUDITORS	1-2
FINANCIAL STATEMENTS	
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7-11
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	12-13
REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE	14-16
Schedule of Expenditures of Federal Awards	17
Notes to the Schedule of Expenditures of Federal Awards	18
Schedule of Findings and Questioned Costs	19-20
Summary of Prior Findings and Questioned Costs	21
OTHER INFORMATION	
Supports and Revenues	22
Expenses Breakdown	23
Programs Detail	24



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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors of
Harbor Interfaith Services, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Harbor Interfaith Services, Inc. ("HIS") (a nonprofit organization), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities, functional expenses, and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 the 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 on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Harbor Interfaith Services, Inc. as of December 31, 2017, and the respective changes in the financial position, and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

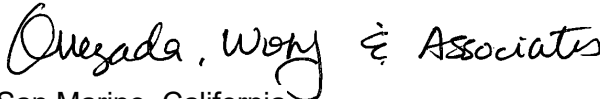
We have previously audited the Harbor Interfaith Services, Inc's 2016 financial statements, and our report dated August 22, 2017, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

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, as required by Title 2 U.S. Code of federal regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirement for Federal Awards is presented for purposes of additional analysis and is not a required part of the financial statements. The supplementary schedules on pages 22 to 24 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards and supplementary schedules are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 and supplementary information on pages 22 to 24 are fairly stated, in all material respects, in relation to the basic 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 October 23, 2018, on our consideration of Harbor Interfaith Services, Inc'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 the Harbor Interfaith Services, Inc'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 Harbor Interfaith Services, Inc's internal control over financial reporting and compliance.


San Marino, California
October 23, 2018

FINANCIAL INFORMATION

HARBOR INTERFAITH SERVICES, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2017
(With Comparative Totals for December 31, 2016)

ASSETS	<u>2017</u>	<u>2016</u>
Cash and cash equivalents (Note 3)	\$ 378,607	\$ 551,357
Grants receivable	1,083,127	452,404
Prepaid expenses and other assets	148,526	122,495
Land, building and equipment - net of accumulated depreciation and amortization of \$3,495,457 (Note 4)	<u>7,463,863</u>	<u>7,793,898</u>
Total Assets	<u><u>\$ 9,074,123</u></u>	<u><u>\$ 8,920,154</u></u>
 LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 488,950	\$ 82,026
Accrued expenses	70,233	66,162
Client deposits	23,864	22,352
Deferred revenue	301,660	41,410
Loan Payable (Note 6)	<u>207,437</u>	<u>268,761</u>
Total liabilities	1,092,144	480,711
 Net Assets		
Unrestricted	<u>7,981,979</u>	<u>8,439,443</u>
Total net assets	<u><u>7,981,979</u></u>	<u><u>8,439,443</u></u>
 Total Liabilities and Net Assets	 <u><u>\$ 9,074,123</u></u>	 <u><u>\$ 8,920,154</u></u>

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

HARBOR INTERFAITH SERVICES, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017
(With Comparative Totals for the Year Ended December 31, 2016)

	<u>Unrestricted</u>	<u>2017 Total</u>	<u>2016 Total</u>
SUPPORT AND REVENUE			
Government grants	\$ 4,347,303	\$ 4,347,303	\$ 3,291,398
Church and other organizations	745,638	745,638	738,959
Contributions	266,132	266,132	239,219
In-kind donations (Note 7)	219,970	219,970	297,675
Program income	101,375	101,375	70,570
Rental income	90,932	90,932	86,648
Interest income	61	61	36
Other income	1,590	1,590	1,580
Fundraising income	102,090	102,090	111,348
	<u>5,875,091</u>	<u>5,875,091</u>	<u>4,837,433</u>
EXPENSES			
Program Services:			
Family Resource Center	991,857	991,857	850,251
Childcare Center	537,841	537,841	567,494
CES - Families, Adults and Youth	4,115,813	4,115,813	2,788,728
Accelerated Learning and Living	223,374	223,374	179,976
	<u>5,868,885</u>	<u>5,868,885</u>	<u>4,386,449</u>
Support Services:			
Management and General	242,089	242,089	210,831
Fundraising	221,581	221,581	186,903
	<u>463,670</u>	<u>463,670</u>	<u>397,734</u>
Total Expenses	<u>6,332,555</u>	<u>6,332,555</u>	<u>4,784,183</u>
(Decrease) / Increase in Net Assets	(457,464)	(457,464)	53,250
Net Assets, Beginning of Year	8,439,443	8,439,443	8,386,193
Net Assets, End of Year	<u>\$ 7,981,979</u>	<u>\$ 7,981,979</u>	<u>\$ 8,439,443</u>

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

HARBOR INTERFAITH SERVICES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2017
(With Comparative Totals for the Year Ended December 31, 2016)

	Family Resource Center	Childcare Center	CES Family	CES Youth/Adults	CES Shelter	Accelerated Learning and Living	Total Program Services	Management and General	Fundraising	Total Support Services	2017 Total	2016 Total
Salaries and payroll related expenses	\$ 312,631	\$ 308,037	\$ 550,189	\$ 572,315	\$ 31,720	\$ 99,988	\$ 1,874,880	\$ 32,616	\$ 113,742	\$ 146,358	\$ 2,021,238	\$ 1,796,090
Legal & accounting						4,330	4,330	71,968		71,968	76,298	18,206
Bank fees		16		304		20	340	20,396		20,396	20,736	15,563
Board expenses							-			-	-	780
Interest Expenses							-			-	-	9,522
Dues & subscription				59			59	15	3,546	3,561	3,620	7,175
Grant writing							-		45,000	45,000	45,000	45,000
Escrow & Loan Fee							-	6		6	6	500
Insurance	8,099	8,397	2,374	2,746	1,738	7,821	31,175	2,348	1,244	3,592	34,767	45,169
License and permits							-	8,971		8,971	8,971	1,255
Maintenance	22,034	9,765	23,134	4,242	22,608	25,523	107,306	7,207	351	7,558	114,864	102,619
Postage	26	18	70	147		5	266	1,406	3,788	5,194	5,460	3,004
Promotion & fundraising expenses						853	853	2,588	45,993	48,581	49,434	41,633
Property management						11,200	11,200			-	11,200	8,800
Rent			5,787	15,858			21,645			-	21,645	10,000
Property taxes	550	502	303		356	2,030	3,741	392	26	418	4,159	3,589
Supplies	3,066	3,605	4,674	7,032	409	520	19,306	21,011	2,409	23,420	42,726	43,252
Subcontractor expenses	46,271		243,316	435,948			725,535			-	725,535	613,816
Technology	4,246	6,953	5,179	6,450	2,773	892	26,493	11,227	1,699	12,926	39,419	29,032
Telephone	3,921	6,651	3,645	14,592	5,047	4,055	37,911	5,014	1,671	6,685	44,596	28,857
Training and meeting expenses							-	14,362		14,362	14,362	-
Travel expenses	1,623	8	4,203	13,740	285	354	20,213	931	1,189	2,120	22,333	17,751
Utilities	16,444	15,421	10,497	3,218	13,080	21,645	80,305	9,048	803	9,851	90,156	83,668
Aid to clients	361,914	22,656	1,320,197	546,687	127,860	6,269	2,385,583	442		442	2,386,025	1,189,008
In-kind donation	128,062	43,133	3,744	41,593		3,318	219,850		120	120	219,970	297,675
Depreciation expense	82,970	112,679	62,498	5,196		34,551	297,894	32,141		32,141	330,035	372,219
Total	\$ 991,857	\$ 537,841	\$ 2,239,810	\$ 1,670,127	\$ 205,876	\$ 223,374	\$ 5,868,885	\$ 242,089	\$ 221,581	\$ 463,670	\$ 6,332,555	\$ 4,784,183

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

HARBOR INTERFAITH SERVICES, INC.
STATEMENT OF CASH FLOWS
For The Year Ended December 31, 2017
(With Comparative Totals for the Year Ended December 31, 2016)

	2017	2016
	Total	Total
Cash flows from operating activities:		
Change in net assets	\$ (457,464)	\$ 53,250
Adjustment to reconcile change in net assets to net cash provided by operations		
Depreciation and amortization	330,035	372,219
Changes in operating assets and liabilities		
(Increase)/Decrease in grants receivable	(630,723)	71,098
(Increase)/Decrease in prepaid expenses	(26,031)	(102,980)
Increase/(Decrease) in accounts payable	406,924	(86,537)
Increase/(Decrease) in accrued expenses	4,071	936
Increase/(Decrease) in client deposits	1,512	(3,353)
Increase/(Decrease) in deferred revenue	260,250	(16,443)
Net cash provided by / (used in) operating activities	(111,426)	288,190
Cash flows from investing activities:		
Net acquisition of land, building and equipment	-	-
Net cash (used in) investing activities	-	-
Cash flows from financing activities:		
Net proceeds from payables	(61,324)	8,761
Net cash provided by financing activities	(61,324)	8,761
Net increase/(decrease) in cash and cash equivalents	(172,750)	296,951
Cash and cash equivalents, beginning of year	551,357	254,406
Cash and cash equivalents, end of year	\$ 378,607	\$ 551,357

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

**HARBOR INTERFAITH SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

NOTE 1 - ORGANIZATION AND OPERATIONS

Harbor Interfaith Services, Inc. ("HIS") is a not-for-profit California Corporation. HIS contracts with federal, state and local government agencies and obtains private contributions to empower the homeless and working poor to achieve self sufficiency by providing support services including shelter, transitional housing, food, job placement, advocacy, childcare, education and life-skills training. A volunteer board of directors governs the HIS.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements of HIS have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles accepted in the United States of America as applicable to not-for-profit organizations. The financial statements have been presented in accordance with the AICPA's Audit and Accounting Guide, "Not-for-Profit Organizations".

Net Assets

HIS recognizes contributions as revenue in the period received. Revenues and expenses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Unrestricted net assets. Net assets not subject to donor-imposed restrictions.

Temporarily restricted net assets. Temporarily restricted net assets consist of cash received with donor imposed restrictions that limit the use of the donated assets. When a donor imposed time restriction ends or the purpose of restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. There were no temporarily restricted net assets as of December 31, 2017.

Recognition of Donor Restricted Contributions

Contributions received are recorded as increase in unrestricted, temporarily restricted, or permanently restricted net assets. Donor-restricted support is reported as an increase in temporarily restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

HARBOR INTERFAITH SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

Grants and Contracts

Grants and contracts with governmental agencies are deemed to be exchange transactions and accordingly, revenue is recognized when earned or when funds are utilized by HIS to carry out the activity stipulated in the grant or contract. Accordingly, amounts expended but not yet received are classified as grants receivable. Cash received in excess of expenses incurred is recorded as deferred revenue until the excess is expended for the purpose of grants and contracts, at which time they are recognized as revenue.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash in checking and money market accounts with maturities of three months or less at the time of purchase.

In-kind Donations

HIS recognizes donated services as those that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

Land, Building and Equipment

Land, building and equipment are recorded at cost or at estimated fair market value at the date of donation, less accumulated depreciation and amortization. Donations of fixed assets are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Depreciation on buildings, leasehold improvements, equipments, and vehicles is presented by using straight-line method over estimated lives of assets, ranging from 5 to 30 years. HIS capitalizes all purchases of equipment in excess of \$1,000.

Land, building and equipment purchased with government grants are recognized as revenues and expenses in the period in which they are received. HIS capitalizes these assets and records a liability in the event that the grantors request that these assets be returned. These assets are not depreciated as they have been expensed in the year earned.

Client Deposits

Clients living at the family shelter are required to deposit a portion of their income with HIS so that at a later date they will have resources to locate permanent housing. The deposits are refunded to the clients when they exit the program.

Functional Allocation of Expenses

The costs of providing the various programs and supporting services have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

HARBOR INTERFAITH SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, liabilities and disclosures of contingent assets and liabilities at the date of financial statements, and reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Pledges

Pledges, which were not material for the year ended December 31, 2017, are recorded as they are received.

Income Tax

HIS is exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. In accordance with the Income Taxes Topic of the Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC"), the accounting for uncertainties in income taxes recognized in an entity's financial statements and prescribes a threshold of more-likely-than-not that a tax position will be sustained upon examination by the appropriate taxing authorities before any part of the benefit can be recorded in the financial statement. The determination of tax exempt status is considered to be a tax position taken with respect to the provisions of FASB. HIS does not believe its financial statements include any uncertain tax positions.

Comparative Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the HIS' financial statements for the year ended December 31, 2016, from which the summarized information was derived.

HARBOR INTERFAITH SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

NOTE 3 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of December 31, 2017 consist of the following:

Cash on hand and in bank	\$ 370,891
Client deposits	7,716
Total	<u>\$ 378,607</u>

NOTE 4 – LAND, BUILDING AND EQUIPMENT

Land, building and equipment as of December 31, 2017 consist of the following:

Land	\$ 886,123
Building and leasehold improvements	9,193,527
Vehicles	59,394
Machinery and equipment	326,479
Furniture and fixture	493,797
	<u>\$ 10,959,320</u>
Less: accumulated depreciation	<u>(3,495,457)</u>
	<u>\$ 7,463,863</u>

Depreciation expense for the year ended December 31, 2017 was \$330,035.

NOTE 5 – LINE OF CREDIT

HIS has a line of credit from American Business Bank amounting to \$300,000. The line of credit bears interest at 5.25%. At December 31, 2017, the line of credit has a balance of \$0.

NOTE 6 – LOAN PAYABLE

On April 6, 2016, HIS obtained a loan of \$300,000, secured by the administrative building, for bearing interest at 4.85%. At December 31, 2017, loan payable amounted to \$207,437.

**HARBOR INTERFAITH SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

NOTE 7 – IN-KIND DONATIONS

HIS had in-kind donations of \$219,970 for fiscal year ended December 31, 2017. The in-kind donations comprised of donated goods and services.

NOTE 8 – FUNDRAISING EVENT

In year 2008, HIS established the South Bay Auxiliary of Harbor Interfaith Services, Inc. (“Auxiliary”), which is a sub-committee of the Board, comprised of volunteers. The primary function of the Auxiliary is to hold an annual fundraising event to procure funds for HIS programs. In the fiscal year ended December 31, 2017, HIS received \$102,090 in fundraising donations, and total event expenditure amounted to \$20,285 which was recorded in fundraising expense.

NOTE 9 – RETIREMENT PROGRAM

HIS has an employee voluntary retirement program under a 403(b) group plan that is open to all employees. HIS does not contribute to the plan.

NOTE 10 – COMMITMENTS AND CONTINGENCIES

Federal and State Funds

HIS has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursements will not be material.

NOTE 11 – SUBSEQUENT EVENTS

In connection with the preparation of the financial statements, HIS evaluated subsequent events through October 23, 2018, which was the date the financial statements were available for issuance, and concluded that no additional disclosures are required.



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**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***

Independent Auditor's Report

To the Board of Directors of
Harbor Interfaith Services, Inc.

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 Harbor Interfaith Services, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 23, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Harbor Interfaith Services, 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 Harbor Interfaith Services, Inc's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Harbor Interfaith Services, Inc's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Quezada, Wong & Associates

San Marino, California
October 23, 2018



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**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM;
REPORT ON INTERNAL CONTROL OVER COMPLIANCE;
AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
REQUIRED BY THE UNIFORM GUIDANCE**

Independent Auditor's Report

To the Board of Directors of
Harbor Interfaith Services, Inc.

Report on Compliance for Each Major Federal Program

We have audited Harbor Interfaith Services, Inc's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Harbor Interfaith Services, Inc.'s major federal programs for the year ended December 31, 2017. Harbor Interfaith Services, 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 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 Harbor Interfaith Services, 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 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). 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 Harbor Interfaith Services, 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 Harbor Interfaith Services, Inc's compliance.

Opinion on Each Major Federal Program

In our opinion, Harbor Interfaith Services, 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, 2017.

Report on Internal Control Over Compliance

Management of Harbor Interfaith Services, 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 Harbor Interfaith Services, 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 Harbor Interfaith Services, 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 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.

Quezada, Wong & Associates
San Marino, California
October 23, 2018

**HARBOR INTERFAITH SERVICES, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

<u>Federal Grantor/Program Title</u>	<u>Grant Period</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Total</u>
<u>U.S. Department of Housing and Urban Development</u>				
Passed through Los Angeles Homeless Service Authority Continuum of Care Program (Shelter Plus Care Program)	12/01/17 TO 11/30/18	14.267	HUD Num CA1491L9D001601	238,867
Passed through City of Long Beach Continuum of Care Program (Harbor PSH)	07/01/17 TO 06/30/18	14.267	CA9002U9D061600	142,482
Sub-Total US Department of Housing and Urban Development				<u>381,349</u>
<u>U.S. Department of Health and Human Services</u>				
Passed through Los Angeles Homeless Service Authority SPA 8 Coordinated Entry Systems (CES) for Families	07/01/16 TO 06/30/17, 07/01/17 TO 06/30/18	93.558	2016DPSS13,2017DPSSF08	<u>813,213</u>
Sub-Total US Department of Health and Human Services				813,213
<u>U.S. Department of Homeland Security</u>				
Pass through United Way of Greater Los Angeles Emergency Food and Shelter Program (FEMA)	11/01/16 to 10/31/17	97.024	Phase 34	<u>21,602</u>
Sub-Total US Department of Homeland Security				21,602
TOTAL EXPENDITURES OF FEDERAL AWARDS				<u><u>\$ 1,216,164</u></u>

Total expenditures included payments to subcontractors amounted to \$228,018

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

**HARBOR INTERFAITH SERVICES
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

NOTE 1 – GENERAL

The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) presents the activity of all expenditures of federal award programs of Harbor Interfaith Services (“HIS”). HIS’ reporting entity is defined in Note 1 and Note 2 of its financial statements. All federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included in the Schedule.

NOTE 2 – BASIS OF ACCOUNTING

The accompanying Schedule is presented using the accrual basis of accounting.

**HARBOR INTERFAITH SERVICES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

Part I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

_____ Yes X No

Significant deficienc(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

Internal control over major programs:

Material weakness(es) identified?

_____ Yes X No

Significant deficienc(ies) identified that are not considered to be material weakness(es)?

_____ Yes X None reported

Type of auditors' report issued on compliance for Major programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 200.516(a) of the Uniform Guidance?

_____ Yes X No

Identification of major programs:

CFDA Number(s)

Name of Federal Program

93.558

SPA 8 Coordinated Entry Systems (CES) for Families

14.267

Continuum of Care Program

Dollar Threshold used to distinguish between

Type A and Type B programs:

\$750,000

Auditee is qualified as low-risk auditee?

 X Yes _____ No

**HARBOR INTERFAITH SERVICES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

Part II - Financial Statement Findings Section

None reported.

Part III - Federal Award Findings and Questioned Costs Section

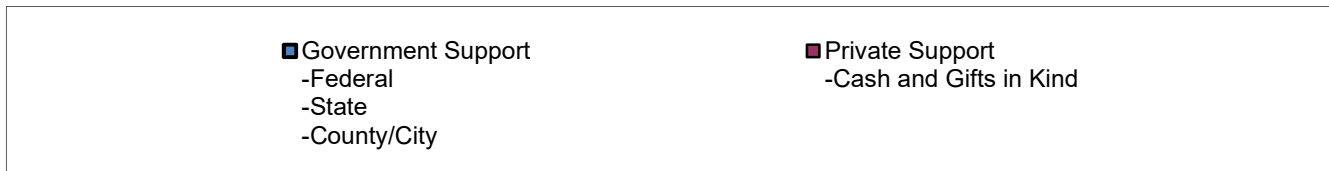
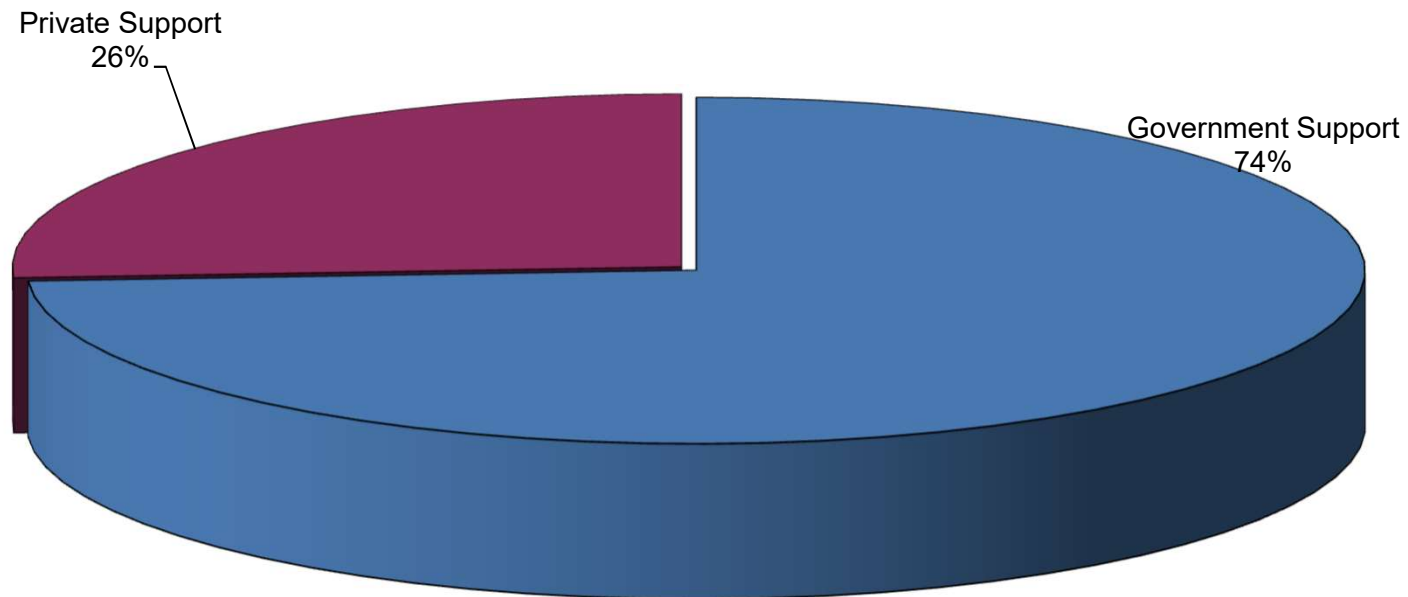
None reported.

**HARBOR INTERFAITH SERVICES
SUMMARY OF PRIOR FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

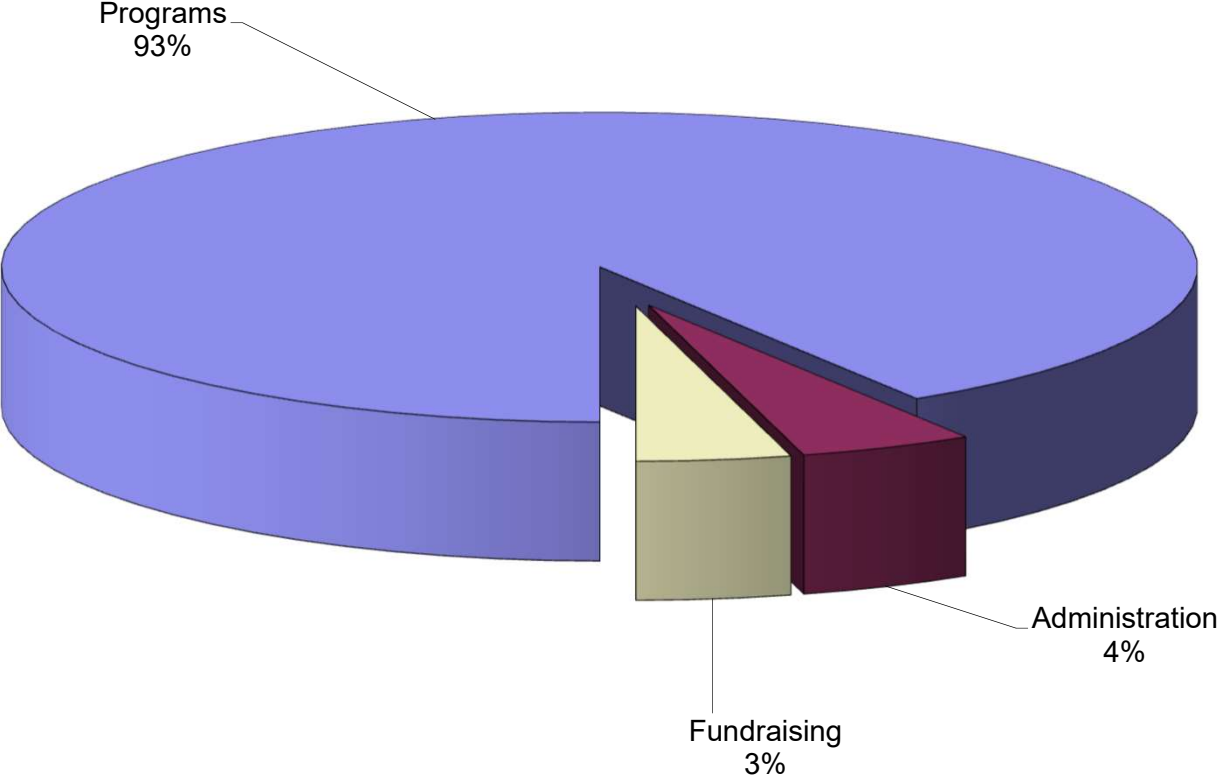
There were no prior year findings.

OTHER INFORMATION

2017 Supports and Revenues



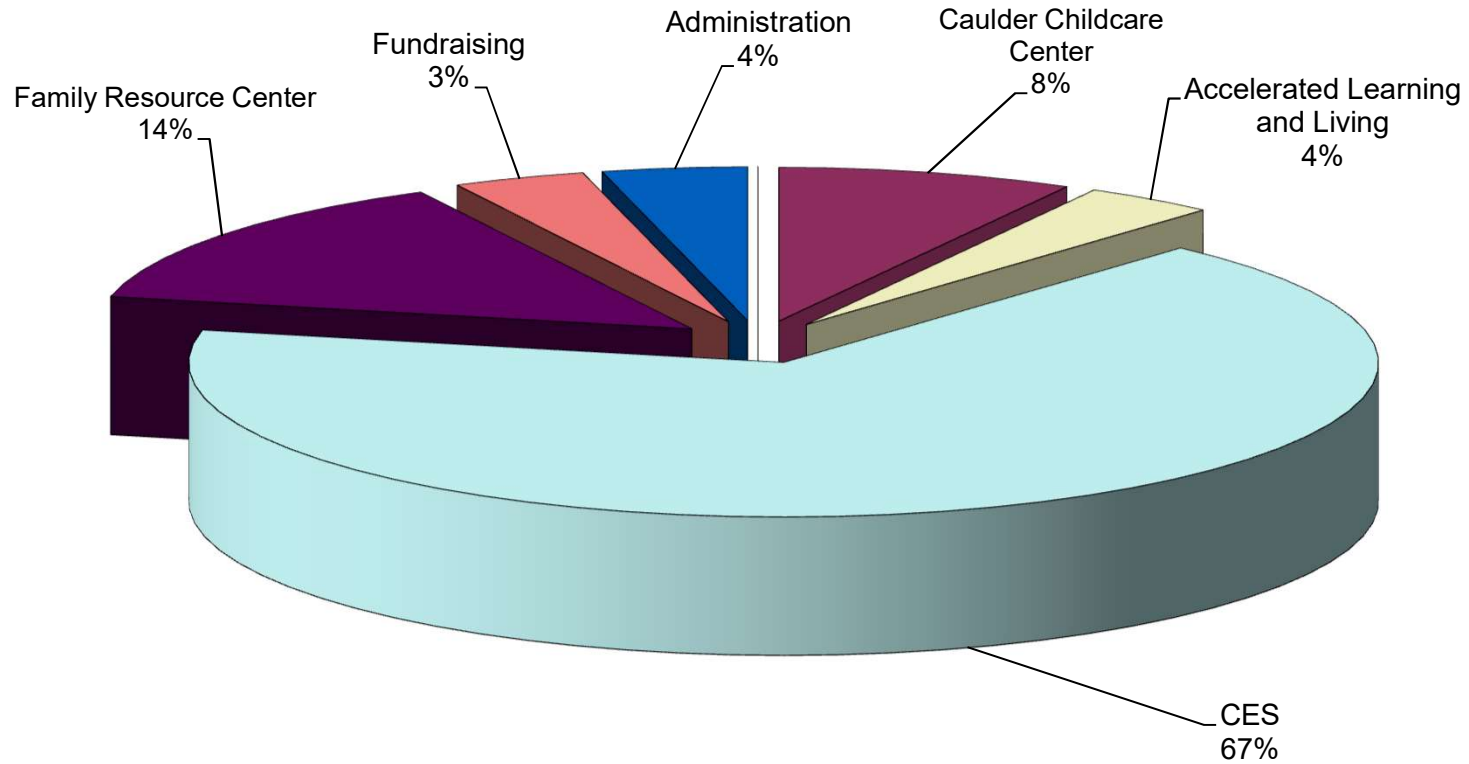
2017 Expenses Breakdown



Note: Expenses excluded in-kind donation occurred during the year.



2017 Programs Detail



Note: Expenses excluded in-kind donation occurred during the year.

