

SANTA MARIA COMMUNITY SERVICES, INC.

FINANCIAL STATEMENTS

December 31, 2012

SANTA MARIA COMMUNITY SERVICES, INC.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Santa Maria Community Services, Inc.
Cincinnati, Ohio

Report on the Financial Statements

We have audited the accompanying financial statements of Santa Maria Community Services, Inc. (the Organization), which comprise the statements of financial position as of December 31, 2012 and 2011, 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 audits 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 opinion.

Opinion

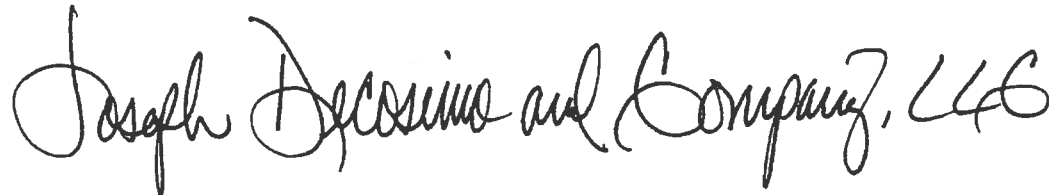
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Santa Maria Community Services, Inc., as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 10, the Organization acquired another non profit organization during the year ended December 31, 2012, resulting in an increase in unrestricted net assets of \$356,306. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 18, 2013, on our consideration of Santa Maria Community 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 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 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 Santa Maria Community Services, Inc.'s internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Joseph Decasius and Company, LLC". The signature is written in a cursive, flowing style.

Cincinnati, Ohio
July 18, 2013

SANTA MARIA COMMUNITY SERVICES, INC.

STATEMENTS OF FINANCIAL POSITION

December 31, 2012 and 2011

	2012	2011
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 273,293	\$ 204,656
Investments, at fair value	276,544	245,235
Grants receivable	260,840	262,725
Prepaid expenses	<u>58,641</u>	<u>43,667</u>
Total current assets	869,318	756,283
PROPERTY AND EQUIPMENT, net	666,806	562,546
OTHER ASSETS		
Deposits	<u>12,549</u>	<u>2,137</u>
TOTAL ASSETS	<u>\$ 1,548,673</u>	<u>\$ 1,320,966</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 36,720	\$ 38,169
Accrued vacation	<u>79,786</u>	<u>80,758</u>
Total liabilities	<u>116,506</u>	<u>118,927</u>
NET ASSETS		
Unrestricted	932,559	663,379
Board designated	<u>269,444</u>	<u>238,135</u>
Total unrestricted	1,202,003	901,514
Temporarily restricted	223,164	293,525
Permanently restricted	<u>7,000</u>	<u>7,000</u>
Total net assets	<u>1,432,167</u>	<u>1,202,039</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,548,673</u>	<u>\$ 1,320,966</u>

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

SANTA MARIA COMMUNITY SERVICES, INC.

STATEMENT OF ACTIVITIES

Year Ended December 31, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
PUBLIC SUPPORT AND REVENUE				
United Way allocations	\$ 959,866	\$ -	\$ -	\$ 959,866
Contributions	253,604	442,913	-	696,517
Contribution - LCW acquisition	356,306	-	-	356,306
Special events, net of direct costs of \$22,970	5,540	-	-	5,540
Investment return	34,366	-	-	34,366
In-kind donations	2,390	-	-	2,390
Total public support and revenue	<u>1,612,072</u>	<u>442,913</u>	<u>-</u>	<u>2,054,985</u>
PROGRAM REVENUE				
Government grants	871,056	-	-	871,056
Service fees	<u>34,914</u>	<u>-</u>	<u>-</u>	<u>34,914</u>
Total program revenue	<u>905,970</u>	<u>-</u>	<u>-</u>	<u>905,970</u>
Net assets released from restriction	<u>513,274</u>	<u>(513,274)</u>	<u>-</u>	<u>-</u>
TOTAL SUPPORT AND REVENUES	<u>3,031,316</u>	<u>(70,361)</u>	<u>-</u>	<u>2,960,955</u>
EXPENSES				
Program services -				
Early Childhood/Parenting	1,031,847	-	-	1,031,847
Financial Opportunity Center	489,647	-	-	489,647
Meals on Wheels	97,107	-	-	97,107
Wellness	241,507	-	-	241,507
Youth	263,096	-	-	263,096
Literacy Center West	155,915	-	-	155,915
Administrative	288,035	-	-	288,035
Development	<u>158,530</u>	<u>-</u>	<u>-</u>	<u>158,530</u>
Total expenses	<u>2,725,684</u>	<u>-</u>	<u>-</u>	<u>2,725,684</u>
OTHER INCOME (EXPENSE)				
Miscellaneous income	4,914	-	-	4,914
Loss on disposal of property and equipment	<u>(10,057)</u>	<u>-</u>	<u>-</u>	<u>(10,057)</u>
Total other income (expense)	<u>(5,143)</u>	<u>-</u>	<u>-</u>	<u>(5,143)</u>
CHANGE IN NET ASSETS	300,489	(70,361)	-	230,128
NET ASSETS - beginning of year	<u>901,514</u>	<u>293,525</u>	<u>7,000</u>	<u>1,202,039</u>
NET ASSETS - end of year	<u>\$ 1,202,003</u>	<u>\$ 223,164</u>	<u>\$ 7,000</u>	<u>\$ 1,432,167</u>

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

SANTA MARIA COMMUNITY SERVICES, INC.

STATEMENT OF ACTIVITIES

Year Ended December 31, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
PUBLIC SUPPORT AND REVENUE				
United Way allocations	\$ 901,024	\$ -	\$ -	\$ 901,024
Contributions	222,635	561,158	-	783,793
Special events, net of direct costs of \$12,510	39,782	-	-	39,782
Investment return	4,396	-	-	4,396
In-kind donations	3,730	-	-	3,730
Total public support and revenue	<u>1,171,567</u>	<u>561,158</u>	<u>-</u>	<u>1,732,725</u>
PROGRAM REVENUE				
Government grants	785,171	-	-	785,171
Service fees	<u>34,215</u>	<u>-</u>	<u>-</u>	<u>34,215</u>
Total program revenue	<u>819,386</u>	<u>-</u>	<u>-</u>	<u>819,386</u>
Net assets released from restriction	<u>507,977</u>	<u>(507,977)</u>	<u>-</u>	<u>-</u>
TOTAL SUPPORT AND REVENUES	<u>2,498,930</u>	<u>53,181</u>	<u>-</u>	<u>2,552,111</u>
EXPENSES				
Program services -				
Early Childhood/Parenting	975,397	-	-	975,397
Financial Opportunity Center	446,742	-	-	446,742
Meals on Wheels	120,636	-	-	120,636
Wellness	229,478	-	-	229,478
Youth	187,711	-	-	187,711
Administrative	273,243	-	-	273,243
Development	<u>158,582</u>	<u>-</u>	<u>-</u>	<u>158,582</u>
Total expenses	<u>2,391,789</u>	<u>-</u>	<u>-</u>	<u>2,391,789</u>
OTHER INCOME (EXPENSE)				
Miscellaneous income	22,656	-	-	22,656
Loss on disposal of property and equipment	<u>(2,359)</u>	<u>-</u>	<u>-</u>	<u>(2,359)</u>
Total other income (expense)	<u>20,297</u>	<u>-</u>	<u>-</u>	<u>20,297</u>
CHANGE IN NET ASSETS	127,438	53,181	-	180,619
NET ASSETS - beginning of year	<u>774,076</u>	<u>240,344</u>	<u>7,000</u>	<u>1,021,420</u>
NET ASSETS - end of year	<u>\$ 901,514</u>	<u>\$ 293,525</u>	<u>\$ 7,000</u>	<u>\$ 1,202,039</u>

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

SANTA MARIA COMMUNITY SERVICES, INC.
STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2012

Program Services

	Early Childhood/ Parenting	Financial Opportunity Center	Meals on Wheels	Wellness	Youth	Literacy Center West	Administrative	Development	Total
\$	611,564	\$ 190,816	\$ 58,018	\$ 116,550	\$ 107,244	\$ 86,748	\$ 177,943	\$ 97,923	\$ 1,446,806
	<u>207,375</u>	<u>60,226</u>	<u>21,939</u>	<u>35,734</u>	<u>24,639</u>	<u>26,194</u>	<u>53,847</u>	<u>36,584</u>	<u>466,538</u>
	<u>818,939</u>	<u>251,042</u>	<u>79,957</u>	<u>152,284</u>	<u>131,883</u>	<u>112,942</u>	<u>231,790</u>	<u>134,507</u>	<u>1,913,344</u>
1,967	95,453	-	4,302	148	5,121	-	-	-	106,991
3,624	623	183	252	258	-	-	273	188	5,401
53	1,383	4	39	52	138	-	1,440	114	3,223
11,605	4,341	1,322	1,812	2,183	702	-	1,900	1,219	25,084
1,946	1,409	373	904	428	-	-	566	1,210	6,836
3,001	2,410	1,400	500	590	14,874	-	4,145	310	27,230
18,756	20,853	4,242	11,023	8,006	6,960	-	7,176	2,982	79,998
615	1,080	-	1,080	244	298	-	775	4,859	8,951
9,017	10,850	852	2,465	853	872	-	1,996	2,830	29,735
62,260	69,031	1,280	43,847	8,057	2,402	-	20,530	3,112	210,519
6,980	366	54	366	90	35	-	648	221	8,760
5,300	4,725	814	1,579	627	1,648	-	2,175	865	17,733
42,098	10,348	333	13,954	17,251	3,737	-	3,720	3,489	94,930
18,494	470	2,342	619	760	1,782	-	5,459	462	30,388
10,910	7,536	2,419	2,670	5,578	1,593	-	5,442	2,162	38,310
				<u>83,250</u>					<u>83,250</u>
	<u>196,626</u>	<u>230,878</u>	<u>15,618</u>	<u>85,412</u>	<u>128,375</u>	<u>40,162</u>	<u>56,245</u>	<u>24,023</u>	<u>777,339</u>
16,282	7,727	1,532	3,811	2,838	2,811	-	-	-	35,001
\$ <u>1,031,847</u>	\$ <u>489,647</u>	\$ <u>97,107</u>	\$ <u>241,507</u>	\$ <u>263,096</u>	\$ <u>155,915</u>	\$ <u>158,530</u>	\$ <u>288,035</u>	\$ <u>158,530</u>	\$ <u>2,725,684</u>

SALARIES AND RELATED EXPENSES

Salaries and wages
Employee benefits and taxes

OPERATING EXPENSES

Assistance to individuals
Awards and grants
Conferences, conventions and meetings
Insurance
Membership dues
Miscellaneous
Occupancy
Postage
Printing and publications
Professional services
Staff education
Office supplies
Supplies
Travel
Telephone
Contribution Expense

DEPRECIATION

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

SANTA MARIA COMMUNITY SERVICES, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2011

Program Services

	Early Childhood/ Parenting	Financial Opportunity Center	Meals on Wheels	Wellness	Youth	Administrative	Development	Total
SALARIES AND RELATED EXPENSES								
Salaries and wages	\$ 606,612	\$ 190,984	\$ 71,129	\$ 126,390	\$ 113,410	\$ 177,705	\$ 92,479	\$ 1,378,709
Employee benefits and taxes	<u>210,115</u>	<u>65,307</u>	<u>30,776</u>	<u>39,044</u>	<u>32,422</u>	<u>52,437</u>	<u>35,999</u>	<u>466,100</u>
	<u>816,727</u>	<u>256,291</u>	<u>101,905</u>	<u>165,434</u>	<u>145,832</u>	<u>230,142</u>	<u>128,478</u>	<u>1,844,809</u>
OPERATING EXPENSES								
Assistance to individuals	914	72,850	-	11,381	150	-	-	85,295
Awards and grants	2,926	604	309	300	418	330	218	5,105
Conferences, conventions and meetings	444	1,341	6	13	47	646	184	2,681
Insurance	9,155	3,114	1,465	1,538	2,209	1,646	1,023	20,150
Membership dues	1,076	968	193	269	236	344	1,031	4,117
Miscellaneous	3,682	1,831	1,345	549	536	8,922	2,082	18,947
Occupancy	17,033	16,802	4,504	4,109	5,528	5,082	2,417	55,475
Postage	856	655	-	1,073	441	611	4,431	8,067
Printing and publications	3,411	1,759	971	589	955	1,547	5,261	14,493
Professional services	27,694	61,703	1,938	23,057	5,898	12,673	3,897	136,860
Staff education	2,623	2,104	-	75	20	174	344	5,340
Office supplies	4,569	2,647	679	1,431	820	983	711	11,840
Supplies	34,649	5,864	131	11,662	16,342	2,485	5,875	77,008
Travel	19,738	1,361	2,296	984	1,895	3,634	664	30,572
Telephone	<u>9,921</u>	<u>7,705</u>	<u>2,412</u>	<u>2,313</u>	<u>2,538</u>	<u>4,024</u>	<u>1,966</u>	<u>30,879</u>
	<u>138,691</u>	<u>181,308</u>	<u>16,249</u>	<u>59,343</u>	<u>38,033</u>	<u>43,101</u>	<u>30,104</u>	<u>506,829</u>
DEPRECIATION								
	<u>19,979</u>	<u>9,143</u>	<u>2,482</u>	<u>4,701</u>	<u>3,846</u>	<u>-</u>	<u>-</u>	<u>40,151</u>
	<u>\$ 975,397</u>	<u>\$ 446,742</u>	<u>\$ 120,636</u>	<u>\$ 229,478</u>	<u>\$ 187,711</u>	<u>\$ 273,243</u>	<u>\$ 158,582</u>	<u>\$ 2,391,789</u>

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

SANTA MARIA COMMUNITY SERVICES, INC.

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2012 and 2011

	2012	2011
OPERATING ACTIVITIES		
Change in net assets	\$ 230,128	\$ 180,619
Adjustments to reconcile change in net assets to net cash flows from operating activities -		
Depreciation	35,001	40,151
Realized and unrealized (gain) loss on investments	(25,100)	9,863
Loss on disposal of property and equipment	10,057	2,359
Donation of property and equipment	83,250	-
Noncash acquisition of entity	(229,219)	-
Changes in operating assets and liabilities, net of acquired entity -		
Grants receivable	91,254	(112,597)
Prepaid expenses	(14,974)	(31,348)
Deposits	696	3,000
Accounts payable	(4,045)	(19,699)
Accrued vacation	(11,894)	1,230
	<u>165,154</u>	<u>73,578</u>
Net cash flows from operating activities		
INVESTING ACTIVITIES		
Purchases of property and equipment	(90,308)	(172,292)
Purchases of investments	(6,209)	(11,496)
	<u>(96,517)</u>	<u>(183,788)</u>
Net cash flows from investing activities		
NET CHANGE IN CASH AND CASH EQUIVALENTS		
	68,637	(110,210)
CASH AND CASH EQUIVALENTS - beginning of year		
	<u>204,656</u>	<u>314,866</u>
CASH AND CASH EQUIVALENTS - end of year		
	<u>\$ 273,293</u>	<u>\$ 204,656</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Noncash acquisition of assets and obligations of Literacy Center West		
Assets and obligations acquired:		
Accounts receivable	\$ 89,369	\$ -
Deposits	11,108	-
Building and improvements	142,260	-
Accounts payable	(2,596)	-
Accrued vacation	(10,922)	-
Net contribution received	<u>\$ 229,219</u>	<u>\$ -</u>

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

SANTA MARIA COMMUNITY SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies and practices followed by the Organization are as follows:

NATURE OF OPERATIONS - Santa Maria Community Services, Inc. is a not-for-profit organization organized under the laws of the State of Ohio and operates five neighborhood-based resource centers in Cincinnati, Ohio. Neighborhood-based programs, offered free of charge and in partnership with the resident volunteers, include: early childhood/parenting; GED preparation; financial stability; housing; employment services; meals on wheels; wellness; and youth.

BASIS OF PRESENTATION - The Organization's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. Accordingly, the Organization is required to report information regarding its financial position and activities, as applicable, according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. 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 and may be utilized at the discretion of the Board of Directors.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization satisfying the purpose restriction or the passage of time.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that the principal must be maintained intact in perpetuity and that only the income from the investment thereof must be expended either for the general purpose of the Organization or for purposes specified by the donor. Permanently restricted net assets were \$7,000 as of December 31, 2012 and 2011.

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Donor-restricted contributions whose restrictions are met during the same reporting period are reported as unrestricted support.

NET ASSETS RELEASED FROM RESTRICTIONS - When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

RECOGNITION OF DONATED ITEMS - The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of donated assets. Donated materials and fixed assets are recognized at fair value as of the date of contribution.

RECOGNITION OF DONATED SERVICES - The Organization recognizes donated services as revenues in the period received only if the services received create or enhance non-financial assets or require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. Revenue recognized for donated services for the years ended December 31, 2012 and 2011, totaled \$2,390 and \$3,730, respectively.

REVENUE RECOGNITION - The Organization recognizes service fees for administrative support services provided to another not-for-profit entity when services are performed. Grants are recognized in earnings in the period in which the related expenditures are incurred. Contributions from United Way are recognized when received.

SANTA MARIA COMMUNITY SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

CASH AND CASH EQUIVALENTS - Cash and cash equivalents include all cash balances and highly liquid investments with an initial maturity of three months or less. The Organization places its temporary cash investments with high credit quality financial institutions. At times such investments may be in excess of the Federal Deposit Insurance Corporation insurance limit. The Organization has not experienced any losses in such accounts and believes its exposure to significant credit risk on cash and cash equivalents is limited.

INVESTMENTS - Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. Other investments are valued at the lower of cost (or fair value at time of donation, if acquired by contribution) or fair value.

FAIR VALUE MEASUREMENTS - Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and sets out a fair value hierarchy. The three levels of the fair value hierarchy are described below:

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 - Inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly through corroboration with observable market data.

Level 3 - Inputs that are unobservable for the asset or liability and include situations where there is little, if any, market activity for the asset or liability. These inputs into the determination of fair value are based upon the best information in the circumstances and may require significant management judgment or estimation.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Organization's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability. The fair value of the Organization's investments as of December 31, 2012 and 2011, was determined using Level 2 inputs.

GRANTS RECEIVABLE - Grants receivable are stated at the amount management expects to collect from the granting agency. It is the opinion of management that all accounts and grants receivable are collectible. Accordingly, no allowance has been provided for such in the financial statements. No bad debts were charged against current operations for the years ended December 31, 2012 or 2011.

Support funded by grants is recognized as the Organization performs the contracted services or incurs outlays eligible for reimbursement under the grant agreements. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such, audit adjustments could be required.

PROPERTY AND EQUIPMENT - Property and equipment are stated at cost at the date of acquisition or fair value at the date of gift, if donated, less accumulated depreciation. Depreciation is provided using the straight-line method and the following useful lives:

Buildings and improvements	5-32 years
Furniture and equipment	3-15 years
Vehicles	5 years

When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in operations currently. The cost of maintenance and repairs is charged to expense as incurred; significant renewals and betterments are capitalized.

SANTA MARIA COMMUNITY SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

DEPOSITS - Funds that are being held in a custodial nature related to workers' compensation, unemployment services, building security and postal service are reported as deposits.

INCOME TAXES - The Organization is exempt from federal income tax under the provisions of Section 501(c)(3) of the Internal Revenue Code. As such, the Organization is exempt from federal, state and local income taxes. The Organization is not considered a private foundation within the meaning of the Internal Revenue Code. The Organization is no longer subject to federal tax examinations for years before 2009.

ALLOCATION OF FUNCTIONAL EXPENSES - Direct salaries and related expenses are charged to program services based upon time spent by personnel on the various programs. Direct expenses are charged to various programs based upon costs incurred when specifically identified with a program. Other costs are allocated to the programs based upon budgeted amounts as followed by the respective funding agency. This reporting requires the allocation of certain costs among various programs and supporting services as determined by management based on identifiable measures, such as percentage of staff on location, percentage of expense to total expense and management's estimate of actual time worked in each program area. In management's opinion, these are reasonable measures to use to allocate costs.

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

SUBSEQUENT EVENTS - The Organization has evaluated subsequent events for potential recognition and disclosure through July 18, 2013, the date the financial statements were available to be issued.

NOTE 2 - ECONOMIC DEPENDENCE

A substantial portion of the Organization's revenue comes from government grants and the United Way of Greater Cincinnati (United Way) program. Approximately 29% and 31% of total support and revenues came from government grants for 2012 and 2011, respectively, and approximately 32% and 35% of total support and revenues came from United Way for 2012 and 2011, respectively.

SANTA MARIA COMMUNITY SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 3 - INVESTMENTS

The following tables summarize the fair value of the Organization's investments by level as of December 31, 2012 and 2011:

	Assets at Fair Value as of December 31, 2012			
	Level 1	Level 2	Level 3	Total
Unrestricted - Mutual funds	\$ -	\$ 100	\$ -	\$ 100
Unrestricted - board designated - Mutual funds	-	269,444	-	269,444
Permanently restricted - Mutual funds	<u>-</u>	<u>7,000</u>	<u>-</u>	<u>7,000</u>
	<u>\$ -</u>	<u>\$ 276,544</u>	<u>\$ -</u>	<u>\$ 276,544</u>

	Assets at Fair Value as of December 31, 2011			
	Level 1	Level 2	Level 3	Total
Unrestricted - Mutual funds	\$ -	\$ 100	\$ -	\$ 100
Unrestricted - board designated - Mutual funds	-	238,135	-	238,135
Permanently restricted - Mutual funds	<u>-</u>	<u>7,000</u>	<u>-</u>	<u>7,000</u>
	<u>\$ -</u>	<u>\$ 245,235</u>	<u>\$ -</u>	<u>\$ 245,235</u>

Investment return consists of the following:

	2012	2011
Interest and dividends	\$ 9,266	\$ 14,259
Net realized and unrealized gains (losses)	<u>25,100</u>	<u>(9,863)</u>
	<u>\$ 34,366</u>	<u>\$ 4,396</u>

SANTA MARIA COMMUNITY SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 3 - INVESTMENTS - continued

Management does not consider the differences between the cost and fair value of investment securities as of December 31, 2012 or 2011, to be significant.

The Organization's endowment consists of one fund established for a variety of purposes. The endowment includes both donor-restricted funds and funds designated by the Board of Directors to function as an endowment. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Organization has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Organization, and (7) the Organization's investment policies.

Investment Return Objectives, Risk Parameters and Strategies - The Organization has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution, while growing funds if possible. Therefore, the Organization expects its endowment assets, over time, to produce an average rate of return consistent with its return objectives. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Spending policy - The Organization has a policy of appropriating for distribution the amount not to exceed the interest and dividend income earned on investments on an annual basis. In establishing this policy, the Organization considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation. The Organization expects the current spending policy to allow its endowment funds to grow annually. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts and investment return.

SANTA MARIA COMMUNITY SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 3 - INVESTMENTS - continued

Endowment net asset composition by type of fund as of December 31, 2012, is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Endowment Net Assets
Donor-restricted endowment funds	\$ -	\$ -	\$ 7,000	\$ 7,000
Board-designated endowment funds	<u>269,444</u>	<u>-</u>	<u>-</u>	<u>269,444</u>
Total funds	<u>\$ 269,444</u>	<u>\$ -</u>	<u>\$ 7,000</u>	<u>\$ 276,444</u>

Changes in endowment net assets for the year ended December 31, 2012, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Endowment Net Assets
Endowment net assets, beginning of year	\$ 238,135	\$ -	\$ 7,000	\$ 245,135
Investment income	8,617	-	-	8,617
Net appreciation	25,249	-	-	25,249
Investment advisory fees	<u>(2,557)</u>	<u>-</u>	<u>-</u>	<u>(2,557)</u>
Endowment net assets, end of year	<u>\$ 269,444</u>	<u>\$ -</u>	<u>\$ 7,000</u>	<u>\$ 276,444</u>

Endowment net asset composition by type of fund as of December 31, 2011, is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Endowment Net Assets
Donor-restricted endowment funds	\$ -	\$ -	\$ 7,000	\$ 7,000
Board-designated endowment funds	<u>238,135</u>	<u>-</u>	<u>-</u>	<u>238,135</u>
Total funds	<u>\$ 238,135</u>	<u>\$ -</u>	<u>\$ 7,000</u>	<u>\$ 245,135</u>

Changes in endowment net assets for the year ended December 31, 2011, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Endowment Net Assets
Endowment net assets, beginning of year	\$ 236,502	\$ -	\$ 7,000	\$ 243,502
Contributions	5,275	-	-	5,275
Investment income	8,474	-	-	8,474
Net appreciation	(9,851)	-	-	(9,851)
Investment advisory fees	<u>(2,265)</u>	<u>-</u>	<u>-</u>	<u>(2,265)</u>
Endowment net assets, end of year	<u>\$ 238,135</u>	<u>\$ -</u>	<u>\$ 7,000</u>	<u>\$ 245,135</u>

SANTA MARIA COMMUNITY SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following major classifications:

	2012	2011
Land	\$ 24,500	\$ 24,500
Building and improvements	861,732	838,922
Furniture and equipment	88,452	88,452
Vehicles	<u>66,121</u>	<u>30,271</u>
	1,040,805	982,145
Accumulated depreciation	<u>(373,999)</u>	<u>(419,599)</u>
	<u>\$ 666,806</u>	<u>\$ 562,546</u>

NOTE 5 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of December 31, 2012 and 2011, consist of the following:

	2012	2011
Wellness program	\$ 37,417	\$ 66,528
Meals on Wheels	47,711	37,461
Youth program	38,117	49,085
Parenting program	33,457	31,199
Financial Opportunity Center and Housing	24,812	43,193
Lower Price Hill housing	29,347	29,347
Other various programs	<u>12,303</u>	<u>36,712</u>
	<u>\$ 223,164</u>	<u>\$ 293,525</u>

NOTE 6 - ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from restrictions by incurring expenses satisfying the restricted purposes of the grant or gift or by occurrence of other events specified by donors. Net assets released from restrictions for the years ended December 31, 2012 and 2011, consist of the following:

	2012	2011
Purpose restriction accomplished -		
Wellness program	\$ 90,152	\$ 43,875
Meals on Wheels	2,000	3,500
Youth program	74,468	46,668
Parenting program	156,221	112,989
Financial Opportunity Center and Housing	188,717	134,725
Building renovations	-	152,500
Other various programs	<u>1,716</u>	<u>13,720</u>
	<u>\$ 513,274</u>	<u>\$ 507,977</u>

SANTA MARIA COMMUNITY SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 7 - RETIREMENT PLAN

The Organization sponsors a retirement plan which provides benefits for eligible employees under the Internal Revenue Code. Employer contributions to the Plan are made in accordance with a specified formula. Benefit payments are based on amounts accumulated from employer and voluntary employee contributions. The Organization's contributions to the Plan totaled \$50,030 and \$48,902 for the years ended December 31, 2012 and 2011, respectively.

NOTE 8 - GOVERNMENT AGENCIES

Revenue from government agencies consists of the following:

	2012	2011
Workforce Investment Act - The Next Level	\$ 121,348	\$ -
4C for Children	40,930	31,658
Ohio Commission on Minority Health	3,518	2,979
City of Cincinnati	46,850	44,030
Cincinnati Public Schools	-	28,921
Cincinnati Area Senior Services	92,066	99,572
Talbert House, Inc.	(465)	2,030
LISC Greater Cincinnati and Northern Kentucky	159,718	106,168
Every Child Succeeds	401,981	468,383
	<u>\$ 865,946</u>	<u>\$ 783,741</u>

NOTE 9 - CONTINGENCIES

Certain conditions may exist as of the date the financial statements are issued which may result in a loss to the Organization but which will only be resolved when one or more future events occur or fail to occur. The Organization's management and legal counsel assess such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the Organization or unasserted claims that may result in such proceedings, the Organization's legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought.

The Organization has received grants for specific purposes that are subject to review by the respective grantor agencies. These reviews could result in a request for reimbursement from the grantor agency for expenditures disallowed under the terms of the grant. Based on prior experience, management believes these disallowances, if any, will be immaterial to the financial statements.

SANTA MARIA COMMUNITY SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 10 - ACQUISITION OF LITERACY CENTER WEST

On September 1, 2012, the Organization acquired 100% of Literacy Center West's (LCW) assets and obligations. LCW was a non-profit organization that provided GED preparation and job readiness training and placement at no cost to those who desired the services. Through their programs, LCW sought to develop character and civic responsibility in those who participated in the programs. The complementary missions and programming of LCW and the Organization led to an acquisition that resulted in enhanced services to a wider range of recipients. The Organization plans to continue to offer LCW's programs to members of the community as a separate program of the Organization.

As a result of the acquisition, the Organization assumed the following LCW assets and liabilities as of September 1, 2012 at values that approximated fair market value on that date.

Cash	\$	127,087
Accounts Receivable		89,369
Deposits		11,108
Building and improvements		142,260
Accounts payable		(2,596)
Accrued payroll		(10,922)
Net contribution	\$	<u>356,306</u>

The Organization did not transfer any consideration for the acquisition, and recognized a contribution in the statement of activities for \$356,306.

INTERNAL CONTROL AND COMPLIANCE

**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
Santa Maria Community Services, Inc.
Cincinnati, Ohio

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 Santa Maria Community Services Inc., (the Organization), which comprise the statement of financial position as of December 31, 2012, 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 July 18, 2013.

Internal Control Over Financial Reporting

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

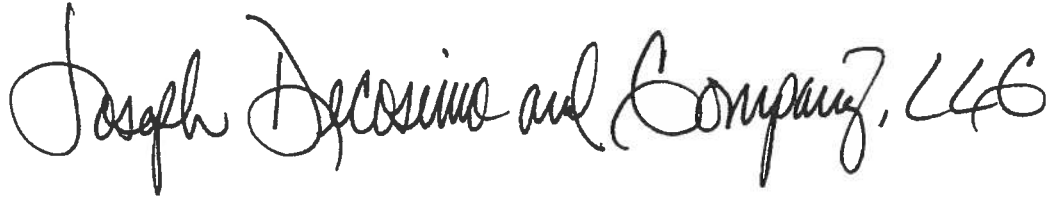
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

A handwritten signature in black ink that reads "Joseph Decosimo and Company, LLC". The signature is written in a cursive, flowing style.

Cincinnati, Ohio
July 18, 2013