

**SANTA MARIA COMMUNITY SERVICES, INC.
AND SUBSIDIARY**

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013

SANTA MARIA COMMUNITY SERVICES, INC. AND SUBSIDIARY
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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 consolidated financial statements of Santa Maria Community Services, Inc. and its subsidiary (the Organization), which comprise the consolidated statements of financial position as of December 31, 2013 and 2012, and the related consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

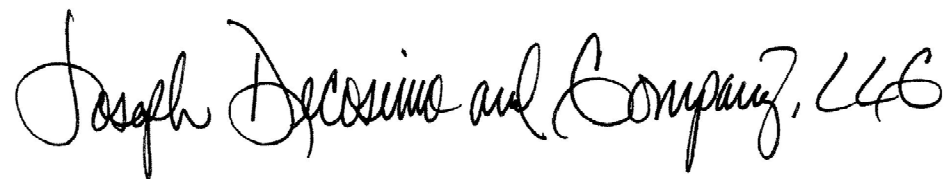
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Santa Maria Community Services, Inc. and its subsidiary, as of December 31, 2013 and 2012, and the changes in their net assets and their cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 24, 2014, on our consideration of Santa Maria Community Services, Inc. and subsidiary's internal control over financial reporting and on our tests of their 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. and subsidiary's internal control over financial reporting and compliance.

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 24, 2014

SANTA MARIA COMMUNITY SERVICES, INC. AND SUBSIDIARY**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION****December 31, 2013 and 2012**

	2013	2012
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 262,520	\$ 273,293
Investments, at fair value	307,357	276,544
Grants receivable	238,922	260,840
Prepaid expenses	<u>26,585</u>	<u>58,641</u>
Total current assets	835,384	869,318
PROPERTY AND EQUIPMENT, net	877,416	666,806
OTHER ASSETS		
Deposits	<u>2,549</u>	<u>12,549</u>
TOTAL ASSETS	<u>\$ 1,715,349</u>	<u>\$ 1,548,673</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 78,918	\$ 36,720
Accrued vacation	<u>92,580</u>	<u>79,786</u>
Total current liabilities	<u>171,498</u>	<u>116,506</u>
LONG-TERM DEBT	<u>155,904</u>	<u>-</u>
NET ASSETS		
Unrestricted	853,658	932,559
Board designated	<u>300,256</u>	<u>269,444</u>
Total unrestricted	1,153,914	1,202,003
Temporarily restricted	227,033	223,164
Permanently restricted	<u>7,000</u>	<u>7,000</u>
Total net assets	<u>1,387,947</u>	<u>1,432,167</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,715,349</u>	<u>\$ 1,548,673</u>

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

SANTA MARIA COMMUNITY SERVICES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended December 31, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
PUBLIC SUPPORT AND REVENUE				
United Way allocations	\$ 925,974	\$ -	\$ -	\$ 925,974
Contributions	344,092	448,537	-	792,629
Special events, net of direct costs of \$48,036	23,880	-	-	23,880
Investment return	34,033	-	-	34,033
In-kind donations	<u>33,250</u>	<u>-</u>	<u>-</u>	<u>33,250</u>
Total public support and revenue	<u>1,361,229</u>	<u>448,537</u>	<u>-</u>	<u>1,809,766</u>
PROGRAM REVENUE				
Government grants	1,195,852	-	-	1,195,852
Service fees	<u>16,212</u>	<u>-</u>	<u>-</u>	<u>16,212</u>
Total program revenue	<u>1,212,064</u>	<u>-</u>	<u>-</u>	<u>1,212,064</u>
Net assets released from restriction	<u>444,668</u>	<u>(444,668)</u>	<u>-</u>	<u>-</u>
TOTAL SUPPORT AND REVENUES	<u>3,017,961</u>	<u>3,869</u>	<u>-</u>	<u>3,021,830</u>
EXPENSES				
Program services -				
Early Childhood/Parenting	1,122,067	-	-	1,122,067
Financial Opportunity Center	527,134	-	-	527,134
Meals on Wheels	104,010	-	-	104,010
Wellness	186,984	-	-	186,984
Youth	196,851	-	-	196,851
Literacy Center West	491,642	-	-	491,642
Administrative	285,441	-	-	285,441
Development	<u>171,888</u>	<u>-</u>	<u>-</u>	<u>171,888</u>
Total expenses	<u>3,086,017</u>	<u>-</u>	<u>-</u>	<u>3,086,017</u>
OTHER INCOME (EXPENSE)				
Miscellaneous income	10,727	-	-	10,727
Gain on disposal of property and equipment	3,837	-	-	3,837
Rental property income	<u>5,403</u>	<u>-</u>	<u>-</u>	<u>5,403</u>
Total other income (expense)	<u>19,967</u>	<u>-</u>	<u>-</u>	<u>19,967</u>
CHANGE IN NET ASSETS	(48,089)	3,869	-	(44,220)
NET ASSETS - beginning of year	<u>1,202,003</u>	<u>223,164</u>	<u>7,000</u>	<u>1,432,167</u>
NET ASSETS - end of year	<u>\$ 1,153,914</u>	<u>\$ 227,033</u>	<u>\$ 7,000</u>	<u>\$ 1,387,947</u>

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

SANTA MARIA COMMUNITY SERVICES, INC. AND SUBSIDIARY

CONSOLIDATED 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	<u>2,390</u>	<u>-</u>	<u>-</u>	<u>2,390</u>
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 consolidated financial statements.

SANTA MARIA COMMUNITY SERVICES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2013

	<u>Program Services</u>						Administrative	Development	Total
	Early Childhood/ Parenting	Financial Opportunity Center	Meals on Wheels	Wellness	Youth	Literacy Center West			
SALARIES AND RELATED EXPENSES									
Salaries and wages	\$ 666,785	\$ 205,200	\$ 59,691	\$ 92,244	\$ 109,945	\$ 275,259	\$ 175,149	\$ 100,237	\$ 1,684,510
Employee benefits and taxes	<u>239,012</u>	<u>66,992</u>	<u>24,639</u>	<u>34,439</u>	<u>34,392</u>	<u>72,580</u>	<u>61,155</u>	<u>38,666</u>	<u>571,875</u>
	<u>905,797</u>	<u>272,192</u>	<u>84,330</u>	<u>126,683</u>	<u>144,337</u>	<u>347,839</u>	<u>236,304</u>	<u>138,903</u>	<u>2,256,385</u>
OPERATING EXPENSES									
Assistance to individuals	2,859	103,422	-	4,409	-	35,529	-	-	146,219
Awards and grants	1,429	521	190	266	303	719	284	169	3,881
Conferences, conventions and meetings	1,291	1,555	-	1,193	-	1,061	571	84	5,755
Insurance	13,060	5,234	1,546	2,267	2,585	2,866	2,364	1,406	31,328
Membership dues	2,525	3,025	138	917	598	1,059	906	1,109	10,277
Miscellaneous	3,197	1,677	510	555	5,975	3,965	5,842	469	22,190
Occupancy	30,905	30,093	4,067	7,442	5,372	28,086	13,305	5,815	125,085
Postage	757	2,849	-	-	202	487	666	4,795	9,756
Printing and publications	4,917	9,667	532	5,499	683	2,863	1,759	5,184	31,104
Professional services	55,957	70,884	2,744	19,808	13,267	28,168	7,357	8,390	206,575
Staff education	7,150	1,618	25	55	-	2,480	625	694	12,647
Office supplies	5,746	4,375	717	772	369	4,366	3,615	865	20,825
Supplies	31,227	10,160	304	5,439	13,943	17,652	290	997	80,012
Travel	23,806	765	3,481	1,002	654	2,831	4,440	462	37,441
Telephone	15,139	7,604	2,783	2,923	5,700	4,286	7,113	2,546	48,094
Contribution expense	-	-	-	-	-	236	-	-	236
	<u>199,965</u>	<u>253,449</u>	<u>17,037</u>	<u>52,547</u>	<u>49,651</u>	<u>136,654</u>	<u>49,137</u>	<u>32,985</u>	<u>791,425</u>
DEPRECIATION	<u>16,305</u>	<u>1,493</u>	<u>2,643</u>	<u>7,754</u>	<u>2,863</u>	<u>7,149</u>	<u>-</u>	<u>-</u>	<u>38,207</u>
	<u>\$ 1,122,067</u>	<u>\$ 527,134</u>	<u>\$ 104,010</u>	<u>\$ 186,984</u>	<u>\$ 196,851</u>	<u>\$ 491,642</u>	<u>\$ 285,441</u>	<u>\$ 171,888</u>	<u>\$ 3,086,017</u>

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

SANTA MARIA COMMUNITY SERVICES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2012

	<u>Program Services</u>						Administrative	Development	Total
	Early Childhood/ Parenting	Financial Opportunity Center	Meals on Wheels	Wellness	Youth	Literacy Center West			
SALARIES AND RELATED EXPENSES									
Salaries and wages	\$ 611,564	\$ 190,816	\$ 58,018	\$ 116,550	\$ 107,244	\$ 86,748	\$ 177,943	\$ 97,923	\$ 1,446,806
Employee benefits and taxes	<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>
OPERATING EXPENSES									
Assistance to individuals	4,027	95,453	-	4,302	148	18,211	-	-	122,141
Awards and grants	1,564	623	183	252	258	-	273	188	3,341
Conferences, conventions and meetings	53	1,383	4	39	52	138	1,440	114	3,223
Insurance	11,605	4,341	1,322	1,812	2,183	702	1,900	1,219	25,084
Membership dues	1,946	1,409	373	904	428	-	566	1,210	6,836
Miscellaneous	3,001	2,401	1,400	500	590	1,784	4,145	310	14,131
Occupancy	29,411	21,696	4,431	15,672	8,880	6,960	9,522	6,032	102,604
Postage	615	1,080	-	1,080	244	298	775	4,859	8,951
Printing and publications	9,017	10,850	852	2,465	853	872	1,996	2,830	29,735
Professional services	62,260	69,031	1,280	43,847	8,057	2,402	20,530	3,112	210,519
Staff education	6,980	366	54	366	90	35	648	221	8,760
Office supplies	5,300	4,725	814	1,579	627	1,648	2,175	865	17,733
Supplies	31,443	9,514	144	9,305	16,377	3,737	914	439	71,873
Travel	18,494	470	2,342	619	760	1,782	5,459	462	30,388
Telephone	10,910	7,536	2,419	2,670	5,578	1,593	5,902	2,162	38,770
Contribution expense	-	-	-	-	83,250	-	-	-	83,250
	<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>
DEPRECIATION	<u>16,282</u>	<u>7,727</u>	<u>1,532</u>	<u>3,811</u>	<u>2,838</u>	<u>2,811</u>	<u>-</u>	<u>-</u>	<u>35,001</u>
	<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>\$ 288,035</u>	<u>\$ 158,530</u>	<u>\$ 2,725,684</u>

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

SANTA MARIA COMMUNITY SERVICES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2013 and 2012

	2013	2012
OPERATING ACTIVITIES		
Change in net assets	\$ (44,220)	\$ 230,128
Adjustments to reconcile change in net assets to net cash flows from operating activities -		
Depreciation	38,207	35,001
Realized and unrealized gain on investments	(25,089)	(25,100)
(Gain) loss on disposal of property and equipment	(3,837)	10,057
Property and equipment donated by the Organization	-	83,250
Property and equipment donation received by the Organization	(33,250)	-
Noncash acquisition of entity	-	(229,219)
Changes in operating assets and liabilities, net of acquired entity -		
Grants receivable	21,918	91,254
Prepaid expenses	32,056	(14,974)
Deposits	10,000	696
Accounts payable	42,198	(4,045)
Accrued vacation	<u>12,794</u>	<u>(11,894)</u>
Net cash flows from operating activities	<u>50,777</u>	<u>165,154</u>
INVESTING ACTIVITIES		
Purchases of property and equipment	(236,495)	(90,308)
Proceeds from sale of equipment	24,765	-
Purchases of investments	<u>(5,724)</u>	<u>(6,209)</u>
Net cash flows from investing activities	<u>(217,454)</u>	<u>(96,517)</u>
FINANCING ACTIVITIES		
Proceeds from issuance of debt	<u>155,904</u>	<u>-</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(10,773)	68,637
CASH AND CASH EQUIVALENTS - beginning of year	<u>273,293</u>	<u>204,656</u>
CASH AND CASH EQUIVALENTS - end of year	<u>\$ 262,520</u>	<u>\$ 273,293</u>

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

SANTA MARIA COMMUNITY SERVICES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2013 and 2012

	2013	2012
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>\$ -</u>	<u>\$ 229,219</u>

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

SANTA MARIA COMMUNITY SERVICES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED 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., a not-for-profit organization, was 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. The consolidated financial statements include the accounts of Santa Maria Community Services, Inc. and one separate single member entity, Santa Maria Properties, LLC, which was formed in 2013 and of which Santa Maria Community Services, Inc. is the sole member. All significant intercompany transactions and balances have been eliminated.

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, 2013 and 2012.

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 consolidated 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 property and equipment are recognized at fair value as of the date of contribution. Amounts recognized as donated property and equipment for the years ended December 31, 2013 and 2012, totaled \$33,250 and \$0, respectively.

SANTA MARIA COMMUNITY SERVICES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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, 2013 and 2012, totaled \$0 and \$2,390, 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.

CASH AND CASH EQUIVALENTS -The Organization considers all money market accounts and highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. The Organization maintains cash accounts which may exceed federally insured amounts at times and which may at times significantly exceed balance sheet amounts due to outstanding checks. Cash equivalents in excess of federally insured limits totaled \$61,718 and \$105,727 as of December 31, 2013 and 2012, respectively.

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, 2013 and 2012, 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, 2013 and 2012.

SANTA MARIA COMMUNITY SERVICES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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.

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's federal Exempt Income Tax Returns (Form 990) are no longer subject to federal tax examinations for years before 2010.

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 consolidated 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

RECLASSIFICATIONS - Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation.

SUBSEQUENT EVENTS - The Organization has evaluated subsequent events for potential recognition and disclosure through July 24, 2014, the date the consolidated financial statements were available to be issued.

SANTA MARIA COMMUNITY SERVICES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 40% and 29% of total support and revenues came from government grants for 2013 and 2012, respectively, and approximately 31% and 32% of total support and revenues came from United Way for 2013 and 2012, respectively.

NOTE 3 - INVESTMENTS

The following tables summarize the fair value of the Organization's investments by level as of December 31, 2013 and 2012:

	Assets at Fair Value as of December 31, 2013			
	Level 1	Level 2	Level 3	Total
Unrestricted - Mutual funds	\$ -	\$ 100	\$ -	\$ 100
Unrestricted - board designated - Mutual funds	-	300,257	-	300,257
Permanently restricted - Mutual funds	<u>-</u>	<u>7,000</u>	<u>-</u>	<u>7,000</u>
	<u>\$ -</u>	<u>\$ 307,357</u>	<u>\$ -</u>	<u>\$ 307,357</u>

	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>

Investment return consists of the following:

	2013	2012
Interest and dividends - endowment	\$ 8,542	\$ 8,617
Interest - general operations	402	649
Net realized and unrealized gains (losses)	<u>25,089</u>	<u>25,100</u>
	<u>\$ 34,033</u>	<u>\$ 34,366</u>

SANTA MARIA COMMUNITY SERVICES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED 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, 2013 or 2012, 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. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 - INVESTMENTS - continued

Endowment net asset composition by type of fund as of December 31, 2013, is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Endowment Net Assets
Donor-restricted endowment funds	\$ -	\$ -	\$ 7,000	\$ 7,000
Board-designated endowment funds	<u>300,257</u>	<u>-</u>	<u>-</u>	<u>300,257</u>
Total funds	<u>\$ 300,257</u>	<u>\$ -</u>	<u>\$ 7,000</u>	<u>\$ 307,257</u>

Changes in endowment net assets for the year ended December 31, 2013, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Endowment Net Assets
Endowment net assets, beginning of year	\$ 269,444	\$ -	\$ 7,000	\$ 276,444
Investment income	8,542	-	-	8,542
Net appreciation	25,089	-	-	25,089
Investment advisory fees	<u>(2,818)</u>	<u>-</u>	<u>-</u>	<u>(2,818)</u>
Endowment net assets, end of year	<u>\$ 300,257</u>	<u>\$ -</u>	<u>\$ 7,000</u>	<u>\$ 307,257</u>

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>

SANTA MARIA COMMUNITY SERVICES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following major classifications:

	2013	2012
Land	\$ 70,643	\$ 24,500
Building and improvements	1,063,306	861,732
Furniture and equipment	84,476	88,452
Vehicles	<u>45,980</u>	<u>66,121</u>
	1,264,405	1,040,805
Accumulated depreciation	<u>(386,989)</u>	<u>(373,999)</u>
	<u>\$ 877,416</u>	<u>\$ 666,806</u>

NOTE 5 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of December 31, 2013 and 2012, consist of the following:

	2013	2012
Wellness program	\$ 45,376	\$ 37,417
Meals on Wheels	66,646	47,711
Youth program	27,582	38,117
Parenting program	45,413	33,457
Financial Opportunity Center and Housing	21,529	24,812
Lower Price Hill Housing	-	29,347
Literacy Center West Programming	20,487	-
Other various programs	<u>-</u>	<u>12,303</u>
	<u>\$ 227,033</u>	<u>\$ 223,164</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, 2013 and 2012, consist of the following:

	2013	2012
Purpose restriction accomplished -		
Wellness program	\$ 39,041	\$ 90,152
Meals on Wheels	-	2,000
Youth program	65,535	74,468
Parenting program	165,774	156,221
Financial Opportunity Center and Housing	121,155	188,717
Lower Price Hill Housing	29,347	-
Literacy Center West	9,513	-
Other various programs	<u>14,303</u>	<u>1,716</u>
	<u>\$ 444,668</u>	<u>\$ 513,274</u>

SANTA MARIA COMMUNITY SERVICES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED 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 \$57,590 and \$50,030 for the years ended December 31, 2013 and 2012, respectively.

NOTE 8 - GOVERNMENT AGENCIES

Revenue from government agencies consists of the following:

	2013	2012
Workforce Investment Act - The Next Level	\$ 372,329	\$ 121,348
4C for Children	50,695	40,930
Ohio Commission on Minority Health	-	3,518
City of Cincinnati	39,409	46,850
Cincinnati Area Senior Services	96,466	92,066
Talbert House, Inc.	5,830	4,645
LISC Greater Cincinnati and Northern Kentucky	148,719	159,718
Every Child Succeeds	482,404	401,981
	<u>\$ 1,195,852</u>	<u>\$ 871,056</u>

NOTE 9 - LONG-TERM DEBT

Long-term debt consists of the following:

	2013	2012
Ed & Joann Hubert Family Foundation, Inc., interest free loan (with an imputed interest rate of 3.27%) with monthly installments commencing on January 1, 2015, with final payment due on December 1, 2026. The loan is collateralized by various properties held by the Organization.	<u>\$ 155,904</u>	<u>\$ -</u>

On December 19, 2013, the Organization entered into a \$155,904 interest free loan (calculated with an imputed interest rate of 3.27%) with the Ed & Joann Hubert Family Foundation, Inc., for the purchase of several buildings.

SANTA MARIA COMMUNITY SERVICES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9 - LONG-TERM DEBT- continued

Aggregate maturities of long-term debt for the years subsequent to December 31, 2013, are as follows:

Year ending	
December 31, 2014	\$ -
December 31, 2015	1,918
December 31, 2016	7,070
December 31, 2017	7,305
December 31, 2018	13,638
Thereafter	<u>125,973</u>
	<u>\$ 155,904</u>

NOTE 10 - OPERATING LEASE - LESSOR

On December 19, 2013, the Organization purchased four properties and entered into four lease agreements with 12-month terms through December 31, 2014. As of December 31, 2013, future minimum rentals are \$19,320 for non related parties and \$9,000 for related parties.

Rental income from the above agreements totaled \$765 for 2013 and \$0 for 2012.

NOTE 11 - CONTINGENCIES

Certain conditions may exist as of the date the consolidated 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 consolidated financial statements.

SANTA MARIA COMMUNITY SERVICES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12 - 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	<u>(10,922)</u>
Net contribution	<u>\$ 356,306</u>

The Organization did not transfer any consideration for the acquisition, and recognized a contribution in the 2012 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 consolidated financial statements of Santa Maria Community Services Inc. and its subsidiary (the Organization), which comprise the consolidated statement of financial position as of December 31, 2013, and the related consolidated 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 24, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated 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 consolidated 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses, we identified a certain deficiency in internal control that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the finding 2013-001 described in the accompanying Schedule of Findings and Responses to be a material weakness.

Compliance and Other Matters

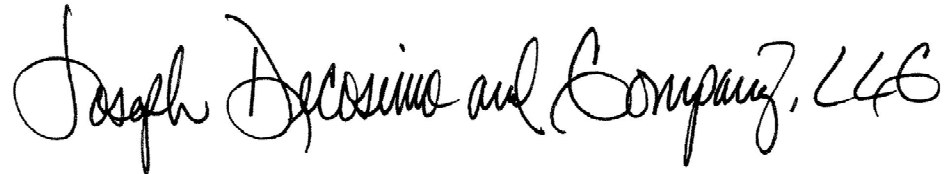
As part of obtaining reasonable assurance about whether the Organization's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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*.

The Organization's Response to Findings

The Organization's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Responses. The Organization's response was not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on it.

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 24, 2014

SANTA MARIA COMMUNITY SERVICES, INC. AND SUBSIDIARY

SCHEDULE OF FINDINGS AND RESPONSES

Year Ended December 31, 2013

FINDING NUMBER 2013-001

Material Weakness - Cash Accounts Are Not Reconciled Timely

CRITERIA

An entity's internal control should be designed to prevent or detect misstatements in the financial statement assertions. Performing timely and accurate bank reconciliations is a key element to maintaining an effective system of internal controls.

CONDITION

During testwork over cash and cash equivalents, we noted that monthly bank to book reconciliations for the Organization's checking account had not been prepared or reviewed for any respective month during 2013. As part of the preparation of the year-end financial statements, the monthly reconciliations for 2013 were completed in the Spring of 2014.

CAUSE

Due to lack of staffing and/or time constraints, the reconciliations were not prepared or reviewed on a timely basis.

EFFECT

Failure to properly prepare bank reconciliations increases the risk of error or omission, errors in net assets, overspending in funds, negative cash balances, and fraud or abuse.

RECOMMENDATION

We recommend that the Organization review and amend its policies and procedures as appropriate to ensure that monthly bank reconciliations are prepared and reviewed.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS

Monthly bank statements were not reconciled in the accounting software in a timely manner during 2013, due to lack of staffing and time constraints. The agency was already aware of this issue and in April 2014 added a .50FTE position to the finance team. All bank reconciliations are currently up to date. There were no significant changes or findings identified during the reconciliation process in the spring of 2014, in part as a result of our regular review of the agency's cash balance. The agency understands the reconciliation process is an important internal control and reconciliation procedures will remain in place going forward.