Santa Maria Community Services, Inc. and Subsidiary

Consolidated Financial Statements

December 31, 2018 and 2017

with Independent Auditors' Report

CLARK SCHAEFER HACKETT
CPAs & ADVISORS

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INDEPENDENT AUDITORS' REPORT

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Santa Maria Community Services, Inc. and Subsidiary (a not-for-profit organization) (collectively, the "Organization"), which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated 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.

Auditors' 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 auditors' 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 auditors consider 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 Subsidiary as of December 31, 2018 and 2017, 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 Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the consolidated 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 Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated 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 June 18, 2019, 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 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 Santa Maria Community Services, Inc. and Subsidiary'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 Santa Maria Community Services, Inc. and Subsidiary's internal control over financial reporting and compliance.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
June 18, 2019

Santa Maria Community Services, Inc. and Subsidiary
Consolidated Statements of Financial Position
December 31, 2018 and 2017

		2018	2017
Assets			
Current assets:			
Cash and cash equivalents	$	793,818	573,020
Grants receivable		316,418	368,925
Contributions receivable		960,261	1,224,445
Prepaid expenses		49,057	61,966
Total current assets		2,119,554	2,228,356
Property and equipment, net		926,026	940,537
Other assets:			
Investments		389,683	376,870
Deposits		357	407
		390,040	377,277
Total assets	$	3,435,620	3,546,170
Liabilities and net assets			
Current liabilities:			
Accounts payable	$	97,892	98,469
Accrued vacation		111,251	114,925
Current portion of long term debt		14,091	13,638
Total current liabilities		223,234	227,032
Long-term debt, net of current portion		111,882	125,973
Total liabilities		335,116	353,005
Net assets:			
Without donor restrictions:			
Undesignated		1,342,812	1,125,575
Board designated		382,258	369,770
Total net assets without donor restrictions		1,725,070	1,495,345
With donor restrictions		1,375,434	1,697,820
Total net assets		3,100,504	3,193,165
Total liabilities and net assets	$	3,435,620	3,546,170

See notes to the consolidated financial statements.

Santa Maria Community Services, Inc. and Subsidiary
Consolidated Statement of Activities
Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Public support and revenue			
United Way allocations	$ -	772,800	772,800
Contributions	453,165	771,287	1,224,452
Special events	81,806	-	81,806
Net investment return	(13,810)	-	(13,810)
In-kind donations	17,215	-	17,215
Total public support and revenue	538,376	1,544,087	2,082,463
Program revenue			
Government grants	1,913,129	-	1,913,129
Service fees	155,992	-	155,992
Total program revenue	2,069,121	-	2,069,121
Net assets released from restrictions	1,866,473	(1,866,473)	-
Total public support and revenues	4,473,970	(322,386)	4,151,584
Expenses			
Program services			
Early childhood/parenting	1,392,220	-	1,392,220
Workforce development	1,065,541	-	1,065,541
Wellness and immigrant services	291,299	-	291,299
AmeriCorps	364,125	-	364,125
Youth	376,070	-	376,070
Administrative	482,205	-	482,205
Development	312,073	-	312,073
Total expenses	4,283,533	-	4,283,533
Other income (expense)			
Miscellaneous income	125	-	125
Interest expense	(4,362)	-	(4,362)
Rental property income	43,525	-	43,525
Total other income	39,288	-	39,288
Change in net assets	229,725	(322,386)	(92,661)
Net assets, beginning of year	1,495,345	1,697,820	3,193,165
Net assets, end of year	$ 1,725,070	1,375,434	3,100,504

See notes to the consolidated financial statements.

Santa Maria Community Services, Inc. and Subsidiary
Consolidated Statement of Activities
Year Ended December 31, 2017

	Without Donor Restrictions	With Donor Restrictions	Total
Public support and revenue			
United Way allocations	$ -	966,000	966,000
Contributions	607,223	352,735	959,958
Special events	69,563	-	69,563
Net investment return	49,836	-	49,836
In-kind donations	18,220	-	18,220
Total public support and revenue	744,842	1,318,735	2,063,577
Program revenue			
Government grants	1,881,581	-	1,881,581
Service fees	157,110	-	157,110
Total program revenue	2,038,691	-	2,038,691
Net assets released from restrictions	1,437,645	(1,437,645)	-
Total public support and revenues	4,221,178	(118,910)	4,102,268
Expenses			
Program services			
Early childhood/parenting	1,486,100	-	1,486,100
Workforce development	900,629	-	900,629
Wellness and immigrant services	239,676	-	239,676
AmeriCorps	352,347	-	352,347
Youth	279,971	-	279,971
Administrative	483,245	-	483,245
Development	333,483	-	333,483
Total expenses	4,075,451	-	4,075,451
Other income (expense)			
Miscellaneous income	1,656	-	1,656
Interest expense	(4,695)	-	(4,695)
Rental property income	32,165	-	32,165
Total other income	29,126	-	29,126
Change in net assets	174,853	(118,910)	55,943
Net assets, beginning of year	1,320,492	1,816,730	3,137,222
Net assets, end of year	$ 1,495,345	1,697,820	3,193,165

See notes to the consolidated financial statements.

Santa Maria Community Services, Inc. and Subsidiary
Consolidated Statement of Functional Expenses
Year Ended December 31, 2018

		Early Childhood/ Parenting	Workforce Development	Wellness & Immigrant Services	AmeriCorps	Youth	Administrative	Development	Total
Salaries and related expenses									
Salaries and wages	$	856,654	503,476	163,606	287,335	179,979	298,854	186,273	2,476,177
Employee benefits and taxes		261,193	142,633	33,659	41,857	43,277	77,091	41,302	641,012
		1,117,847	646,109	197,265	329,192	223,256	375,945	227,575	3,117,189
Other expenses									
Assistance to individuals		48,605	57,519	1,933	-	1,636	-	-	109,693
Awards and grants		402	114	35	19	45	361	536	1,512
Conferences, conventions and meetings		4,760	6,866	880	1,025	825	4,244	2,080	20,680
Insurance		12,164	7,293	2,215	1,226	2,843	3,345	2,240	31,326
Membership dues		3,115	1,800	491	206	559	1,107	1,424	8,702
Miscellaneous		724	479	132	73	216	6,246	25,785	33,655
Occupancy		49,229	108,009	20,763	6,793	20,330	41,818	17,634	264,576
Postage		378	545	451	7	59	13	2,866	4,319
Printing and publications		7,534	9,263	3,228	694	1,349	3,159	7,313	32,540
Professional services		45,942	123,761	42,076	12,812	66,576	24,584	4,475	320,226
Staff education		6,240	6,810	840	1,222	270	941	3,106	19,429
Office supplies		5,805	9,455	1,506	1,042	1,220	3,024	1,840	23,892
Supplies		24,691	44,179	6,957	2,391	39,214	672	4,600	122,704
Travel		29,836	4,430	1,312	3,240	2,578	3,116	814	45,326
Telephone		16,909	17,366	5,955	2,439	8,386	7,026	6,597	64,678
		256,334	397,889	88,774	33,189	146,106	99,656	81,310	1,103,258
Depreciation		18,039	21,543	5,260	1,744	6,708	6,604	3,188	63,086
	$	1,392,220	1,065,541	291,299	364,125	376,070	482,205	312,073	4,283,533

See notes to the consolidated financial statements.

		Early Childhood/ Parenting	Workforce Development	Wellness & Immigrant Services	AmeriCorps	Youth	Administrative	Development	Total
Salaries and related expenses									
Salaries and wages	$	943,232	430,571	129,791	275,383	162,916	301,876	188,972	2,432,741
Employee benefits and taxes		297,004	116,371	29,721	43,073	39,517	77,759	52,641	656,086
		1,240,236	546,942	159,512	318,456	202,433	379,635	241,613	3,088,827
Other expenses									
Assistance to individuals		30,737	40,925	1,683	-	617	-	-	73,962
Awards and grants		3,192	987	308	219	695	1,922	511	7,834
Conferences, conventions and meetings		3,889	3,029	420	835	700	6,387	425	15,685
Insurance		16,297	6,619	2,029	1,400	2,520	3,580	2,327	34,772
Membership dues		2,456	1,137	212	152	385	383	706	5,431
Miscellaneous		1,025	415	115	78	145	6,629	31,841	40,248
Occupancy		36,350	57,967	12,493	7,031	15,825	25,257	16,579	171,502
Postage		353	772	441	-	40	81	4,813	6,500
Printing and publications		8,312	7,315	2,997	1,928	1,591	2,896	11,871	36,910
Professional services		36,737	143,346	40,769	10,082	14,091	28,647	6,314	279,986
Staff education		5,173	1,711	662	1,406	619	2,049	1,783	13,403
Office supplies		7,798	11,415	1,260	1,875	1,139	3,034	1,836	28,357
Supplies		18,570	38,461	6,915	1,559	21,855	4	5,235	92,599
Travel		34,697	3,009	844	3,283	1,541	3,680	685	47,739
Telephone		20,098	18,886	4,868	2,755	10,081	7,763	5,132	69,583
		225,684	335,994	76,016	32,603	71,844	92,312	90,058	924,511
Depreciation		20,180	17,693	4,148	1,288	5,694	11,298	1,812	62,113
	$	1,486,100	900,629	239,676	352,347	279,971	483,245	333,483	4,075,451

See notes to the consolidated financial statements.

	2018	2017
Cash flows from operating activities		
Change in net assets	$ (92,661)	55,943
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	63,086	62,113
Realized and unrealized (gain) loss on investments	14,897	(45,658)
Changes in operating assets and liabilities		
Grants receivable	52,507	(33,583)
Contributions receivable	264,184	63,665
Prepaid expenses	12,909	(5,220)
Deposits	50	650
Accounts payable	(577)	15,101
Accrued vacation	(3,674)	4,841
Net cash flows from operating activities	310,721	117,852
Cash flows from investing activities		
Purchases of property and equipment	(48,575)	(59,377)
Purchases of investments	(27,710)	-
Net cash flows from investing activities	(76,285)	(59,377)
Cash flows from financing activities		
Repayment of debt	(13,638)	(7,305)
Net change in cash and cash equivalents	220,798	51,170
Cash and cash equivalents, beginning of year	573,020	521,850
Cash and cash equivalents, end of year	$ 793,818	573,020

See notes to the consolidated financial statements.

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 and organizations include: Early Childhood/Parenting, which includes a focus on childhood education; Workforce Development, which includes focus on financial stability, housing, employment services and GED preparation; Wellness & Immigrant Services which includes a focus on healthcare; AmeriCorps with a focus on GED preparation and health navigation; Youth development, which includes a focus on life, social and emotion skill development. The consolidated financial statements include the accounts of Santa Maria Community Services, Inc. and one separate member entity, Santa Maria Properties, LLC, which was formed in 2013 and of which Santa Maria Community Services, Inc. is the sole member (collectively, the "Organization"). All significant intercompany transactions and balances have been eliminated.

Adoption of new accounting standard
During 2018, the Organization adopted Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The standard addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about investment return and functional expenses, including allocation methodologies. The Organization has adjusted the presentation of these consolidated financial statements accordingly.

Basis of presentation
The Organization's consolidated 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 according to the following net asset classifications:

- Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization 's management and the Board of Directors.

- Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will likely be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. Net assets that must be maintained in perpetuity were $7,000 as of December 31, 2018 and 2017.

Net assets released from restrictions
When a donor restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions.

Recognition of donated items and services

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. Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization.

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 and other donors are recognized when an unconditional promise to give has been 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. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk.

Investments

Investments consist of funds held by a local community foundation and are carried at the estimated fair value as provided by the community foundation.

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.

The following is a description of valuation methodologies used for assets measured at fair value.

Funds held by others are considered to be Level 3 and are valued at the estimated fair value of the assets based on the underlying investments using prices obtained from the Greater Cincinnati Foundation as custodian of the assets, which used third party data service providers, without adjustment by management.

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 consolidated financial statements.

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.

Contributions receivable
The Organization has received multi-year contributions that are due in future periods. Contributions receivable are recorded net of a discount for net present value. As of December 31, 2018 and 2017, no discount has been provided as the amount is immaterial. Management has determined that no allowance for uncollectible contributions receivable is necessary at December 31, 2018 and 2017.

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. Unrelated business income is not material to the consolidated financial statements as a whole.

Allocation of functional expenses
The consolidated financial statements report certain categories of expenses that are attributable to one or more programs or supporting functions of the Organization. Expenses are directly applied when applicable and other expenses are allocated to programs or supporting services. Expenses have been classified based upon the actual direct expenditures for natural classes, with the exception of depreciation. Depreciation has been allocated based upon square footage usage. All fundraising costs are charged to fundraising expenses and thus, there are no joint 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.

Subsequent events
The Organization has evaluated subsequent events for potential recognition and disclosure through June 18, 2019, the date the consolidated financial statements were available to be issued.

Reclassifications
Certain items from 2017 have been reclassified to conform to current year presentation.

2. CONTRIBUTIONS RECEIVABLE:

Contributions receivable consisted of the following as of December 31:

	2018	2017
Less than one year	$ 917,300	1,131,484
Two to five years	42,961	92,961
	$ 960,261	1,224,445

3. INVESTMENTS:

The Organization has recorded a beneficial interest in investments held by The Greater Cincinnati Foundation in its Endowment Fund of $389,258 and $376,770 at December 31, 2018 and 2017, respectively. The pooled endowment fund holds primarily common stock, mutual funds, and corporate and government fixed income obligations, which are stated at fair value as determined by market prices. The Organization also has an investment in common stock that is valued at $425 and $100 at December 31, 2018 and 2017, respectively.

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

	Fair value measurements as of December 31, 2018			
	Level 1	Level 2	Level 3	Total
Funds held by others for the benefit of the Organization	$ -	-	389,258	389,258
Common stock	425	-	-	425
	$ 425	-	-	389,683

	Fair value measurements as of December 31, 2017			
	Level 1	Level 2	Level 3	Total
Funds held by others for the benefit of the Organization	$ -	-	376,770	376,770
Common stock	100	-	-	100
	$ 100	-	-	376,870

The following is a reconciliation of the Level 3 funds held by others for the benefit of the Organization fair value measurements as of December 31:

	2018	2017
Balance as of January 1	$ 376,770	331,112
Investment advisory fees	(3,779)	(3,422)
Contributions	31,164	-
Change in value, held at end of year	(14,897)	49,080
Balance as of December 31	$ 389,258	376,770

4. ENDOWMENT:

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 Ohio-enacted 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 perpetually restricted net assets (a) the original value of gifts donated to the perpetual endowment, (b) the original value of subsequent gifts to the perpetual endowment, and (c) accumulations to the perpetual 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 perpetually restricted net assets is classified as net assets with donor restrictions 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 pooled endowment fund as described in Note 3 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 reinvesting the interest and dividend income earned on investments immediately. In establishing this policy, the Organization considered the long-term expected return on its investment assets, the nature and duration of the endowment fund 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.

Endowment net asset composition by type of fund as of December 31, 2018:

	Without Donor Restrictions	With Donor Restrictions	Endowment Net Assets
Donor restricted endowment funds	$ -	7,000	7,000
Board designated endowment funds	382,258	-	382,258
Total funds	$ 382,258	7,000	389,258

Endowment net asset composition by type of fund as of December 31, 2017:

	Without Donor Restrictions	With Donor Restrictions	Endowment Net Assets
Donor restricted endowment funds	$ -	7,000	7,000
Board designated endowment funds	369,770	-	369,770
Total funds	$ 369,770	7,000	376,770

Changes in endowment net assets for the year ended December 31, 2018, are as follows:

	Without Donor Restrictions	With Donor Restrictions	Endowment Net Assets
Endowment net assets, beginning of year	$ 369,770	7,000	376,770
Contributions	31,164	-	31,164
Net depreciation	(14,897)	-	(14,897)
Investment advisory fees	(3,779)	-	(3,779)
Endowment net assets, end of year	$ 382,258	7,000	389,258

Changes in endowment net assets for the year ended December 31, 2017, are as follows:

	Without Donor Restrictions	With Donor Restrictions	Endowment Net Assets
Endowment net assets, beginning of year	$ 324,112	7,000	331,112
Net appreciation	49,080	-	49,080
Investment advisory fees	(3,422)	-	(3,422)
Endowment net assets, end of year	$ 369,770	7,000	376,770

5. PROPERTY AND EQUIPMENT:

Property and equipment consist of the following major classifications at December 31:

	2018	2017
Land	$ 70,643	70,643
Building and improvements	1,252,580	1,242,130
Furniture and equipment	107,931	88,000
Vehicles	57,666	57,666
	1,488,820	1,458,439
Accumulated depreciation	(562,794)	(517,902)
	$ 926,026	940,537

6. LONG-TERM DEBT:

Long-term debt consists of an interest-free loan from the Ed & Joann Hubert Family Foundation, Inc. Monthly installments (with an imputed interest rate of 3.27%) are required, with final payment due on December 1, 2026. The loan is collateralized by various properties held by the Organization. The balance outstanding at December 31, 2018 and 2017 was $125,973 and $139,611, respectively.

Aggregate maturities of long-term debt for the years subsequent to December 31, 2018, are as follows:

2019	$ 14,091
2020	14,558
2021	15,042
2022	15,541
2023	16,057
Thereafter	50,684
	$ 125,973

7. NET ASSETS WITH DONOR RESTRICTIONS:

Net assets with donor restrictions are restricted for the following purposes at December 31:

	2018	2017
Subject to expenditure for specific purpose:		
Early childhood/parenting	$ 27,575	50,633
Workforce development	121,352	68,228
Wellness	50,724	42,792
Americorps	40,610	38,497
Youth	70,228	108,368
Capacity building	5,825	51,450
Other	91,859	106,407
	408,173	466,375
Subject to the passage of time:		
Contributions receivable	960,261	1,224,445
Net assets held in perpetuity	7,000	7,000
Total net assets with donor restrictions	$ 1,375,434	1,697,820

8. CONCENTRATIONS:

A substantial portion of the Organization's revenue comes from government grants and the United Way of Greater Cincinnati (United Way) program. Approximately 46% of total support and revenues came from government grants for 2018 and 2017. Approximately 19% and 24% of total support and revenues came from United Way for 2018 and 2017, respectively. Approximately 80% of contribution receivables are due from one funder at December 31, 2018. Approximately 91% of contribution receivables were due from two funders at December 31, 2017

9. 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 $79,991 and $66,611 for the years ended December 31, 2018 and 2017, respectively.

10. RENTAL REVENUE UNDER OPERATING LEASES:

The Organization leases a portion of certain buildings which generates revenue under operating leases. Cost and net book value as of December 31, 2018 of the buildings leased are $244,000 and $213,000, respectively. Gross rental income recognized on noncancelable operating leases totaled $43,525 and $32,165 for the years ended December 31, 2018 and 2017. The future expected revenues under noncancelable operating leases with initial or remaining lease terms in excess of one year as of December 31, 2018, are $4,167 in 2019.

11. CONTINGENCIES:

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 any disallowances would not be significant to the consolidated financial statements.

12. LIQUIDITY DISCLOSURES:

The Organization is substantially supported by grant funding and contributions from donors. As part of the Organization’s liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

The following table presents the financial assets available to meet cash needs for general expenditures within one year at December 31:

	2018	2017
Financial assets:		
Cash and cash equivalents	$ 793,818	573,020
Grants receivable	316,418	368,925
Contributions receivable – current portion	917,300	1,131,484
Investments	389,683	376,870
Financial assets available at year-end	2,417,219	2,450,299

Less those unavailable for general expenditures within one year due to:		
Restricted by donor with purpose restrictions expected to be utilized within one year	408,173	466,375
Donor restricted endowment	7,000	7,000
Board designated endowment	382,258	369,770
	797,431	843,145
Financial assets available to meet cash needs for general expenditures within one year	$ 1,619,788	1,607,154

13. RECENT ACCOUNTING PRONOUNCEMENTS:

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU No. 2014-09, *Revenue from Contracts with Customers*. The standard's core principle is that an organization will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the organization expects to be entitled in exchange for those goods or services. This standard also includes expanded disclosure requirements that result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. This standard will be effective for the Organization's year ending December 31, 2019.

In June 2018, FASB issued ASU 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. The standard will assist entities in determining whether transactions should be recorded as a contribution (nonreciprocal transaction) or as an exchange (reciprocal transaction). The standard also provides expanded guidance on determining whether or not a contribution is conditional. This standard will be effective for the Organization's year ending December 31, 2019.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*. The standard requires all leases with lease terms over 12 months to be capitalized as a right-of-use asset and lease liability on the statement of financial position at the date of the lease commencement. Leases will be classified as either financing or operating. This distinction will be relevant for the pattern of expense recognition in the statement of activities. This standard will be effective for the Organization's year ending December 31, 2020.

The Organization is currently in the process of evaluating the impact of adoption of these ASU's on the consolidated financial statements.

Granting Agency/ Passthrough Agency/ Program Title	CFDA Number	Federal Expenditures
U.S. Department of Labor		
Hamilton County Department of Job and Family Services		
WIOA Cluster:		
WIOA Youth Activities	17.259	$ 533,162
U.S. Department of Health and Human Services		
Hamilton County Department of Job and Family Services		
TANF Cluster:		
Temporary Assistance for Needy Families	93.558	241,685
Corporation for National and Community Services		
Serve Ohio		
AmeriCorps	94.006	214,594
Total federal expenditures		$ 989,441

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Santa Maria Community Services, Inc. and Subsidiary under programs of the federal government for the year ended December 31, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Santa Maria Community Services, Inc. and Subsidiary, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Santa Maria Community Services, Inc. and Subsidiary.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE C – INDIRECT COST RATE

Santa Maria Community Services, Inc. and Subsidiary has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance

CLARK SCHAEFER HACKETT
CPAS & ADVISORS

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INDEPENDENT AUDITORS' 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. and Subsidiary
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 Subsidiary, (a not-for-profit organization), which comprise the consolidated statement of financial position as of December 31, 2018, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated June 18, 2019.

Internal Control over Financial Reporting
In planning and performing our audit of the consolidated financial statements, we considered Santa Maria Community Services, Inc. and Subsidiary'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 Santa Maria Community Services, Inc. and Subsidiary's internal control. Accordingly, we do not express an opinion on the effectiveness of Santa Maria Community Services, Inc. and Subsidiary'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 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.

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. Given these limitations, during our audit 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.

Compliance and Other Matters
As part of obtaining reasonable assurance about whether Santa Maria Community Services, Inc. and Subsidiary'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.*

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 Santa Maria Community Services, Inc. and Subsidiary's internal control or on compliance. This 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 and compliance. Accordingly, this communication is not suitable for any other purpose.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
June 18, 2019

CLARK SCHAEFER HACKETT
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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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

Report on Compliance for Each Major Federal Program
We have audited Santa Maria Community Services, Inc. and Subsidiary'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 Santa Maria Community Services, Inc. and Subsidiary's major federal programs for the year ended December 31, 2018. Santa Maria Community Services, Inc. and Subsidiary's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility
Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility
Our responsibility is to express an opinion on compliance for each of Santa Maria Community Services, Inc. and Subsidiary'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 the Organization'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 Santa Maria Community Services, Inc. and Subsidiary's compliance.

Opinion on Each Major Federal Program
In our opinion, Santa Maria Community Services, Inc. and Subsidiary complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2018.

Report on Internal Control over Compliance

Management of Santa Maria Community Services, Inc. and Subsidiary 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 Santa Maria Community Services, Inc. and Subsidiary'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 Santa Maria Community Services, Inc. and Subsidiary'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.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
June 18, 2019

Financial statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	_______yes ___X__no
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	_______yes ___X__no
Noncompliance material to financial statements noted?	_______yes ___X__no

Federal awards

Internal control over major programs:	
• Material weakness(es) identified?	_______yes ___X__no
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	_______yes ___X__no
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance?	_______yes ___X__no

Identification of major programs:

CFDA number	Name of federal program or cluster
17.259	WIOA Cluster - WIOA Youth Activities
93.558	TANF Cluster - Temporary Assistance for Needy Families

Dollar threshold used to distinguish between type A and type B programs: $750,000

Auditee qualified as low-risk auditee? _______yes ___X__no

Section II - Financial statement findings:

None

Section III – Federal award findings and questioned costs:

None